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HEARING, BEFORE THE
SENATE FACT FINDING COMMITTEE ON WATER .
STATE OF CALIFORNIA

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REPORTER'S TRANSCRIPT *of proceedings*

PROCEEDINGS HAD before the Fact Finding
Committee on Water of the California
State Senate at Room 4203, State Capitol,
Sacramento, California, commencing at
10:10 o'clock, a. m., Thursday, June 23, 24, 1960.
1960, and continuing through Friday,
June 24, 1960.

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MEMBERS OF THE COMMITTEE:

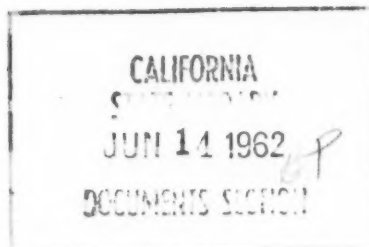
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SENATOR CARL L. CHRISTENSEN
SENATOR JAMES A COBEY
SENATOR RICHARD J. DOLWIG
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JAMES WRIGHT representing the DEPARTMENT OF WATER RESOURCES
State of California

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THURSDAY, JUNE 23, 1960, 10:10 O'CLOCK, A. M.

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CHAIRMAN TEALE: The meeting will come to order. There is a quorum present.

I would like to make a short statement.

This is a hearing of the Senate Fact Finding Committee on Water and we will be in session today and tomorrow.

I am Senator Teale from the Twenty-sixth District. I represent Calaveras, Tuolumne and Mariposa Counties. On my right is Senator John Murdy, who represents Orange County. On my left we have Senator Donnelly from Stanislaus. Senator Christensen from Eureka, Senator Ed. Johnson from Yuba and Sutter Counties; Senator Williams from Tulare, is it, Howard?

SENATOR WILLIAMS: Just Tulare County.

CHAIRMAN TEALE: He represents a very important County down in the Central Valley, about the geographical center of the state.

SENATOR COBEY: And Madera County is the most important in the State.

CHAIRMAN TEALE: On my right coming in is Senator Cobey, who represents Merced and Madera Counties.

This hearing was called for a discussion of some of the factors and problems involved in the local assistance program enacted by the Legislature for water development. A start was made on this program with legislation in 1957. The legislation was strengthened and expanded in 1959 and we appropriated then \$15,000,000 as an interim loan and grant fund. I might say it is anticipated if 1106 passes in November, there will be \$130,000,000 in this fund and we want to talk about that somewhat today.

The Davis-Grunsky Act as the 1959 legislation is known, constitutes a good program but a number of questions, not to say difficulties, have arisen since its enactment. I would like to

mention just two or three of these.

First, of the applications for loans and grants that have come in, a majority are for projects which contemplate the distribution of water for agriculture, domestic or other purposes, rather than the development of new or additional water supplies.

The distribution of water for these uses is a worthy purpose but it seems to me that a separate problem is involved and not the one we were trying to get at in consideration of the Act.

Agriculture and city distribution systems generally are more susceptible to being built in steps -- as demand arises and as capacity to pay comes into being.

Water conservation and storage projects, on the other hand, often may have to be built to full capacity at the outset to take full advantage of site, stream flow and so on. Full use of water conserved may develop slowly and financing problems obviously arise.

It is our understanding in considering the 130 million dollars proposed in the Burns-Porter Act for local assistance that the money was intended for development of new or additional water supplies.

As a matter of fact, we were furnished at that time with a list of projects that might be financed from this fund and these projects were basically for new water.

I have asked the representatives of the Department to submit a list of this kind for our hearing today. I might say that I have checked the old list against the list of applicants for local assistance and have found that only one project appears on both of them.

I think the Committee should note that the Department of Water resources and the California Water Commission, by resolution, have given priority to "new water" projects. I commend them for that action. But I believe we should consider whether this policy

might be made a matter of law rather than an agency decision or resolution.

Another difficulty that has arisen concerns the requirement that the agency seeking a loan be unable to finance its project from other sources. It is difficult to define inability to finance. And at the interest rates at which the State would loan money, the project involved still may not be feasible.

The grants authorized under the Act may be only for the portion of the reservoir which would properly be allocated to recreation and enhancement of fish and wildlife resources. We have asked for comments at this hearing on whether or not that qualification may not be too restrictive. It could be pointed out that under opinions we have received from our Legislative Counsel, the State, in its water activities, may spend money on a nonreimbursable basis for so-called on-shore facilities.

I have asked the representatives of the Department of Water Resources to make the first appearance at this hearing and I understand Mr. James Wright is representing the Department.

I might say that I am quite disappointed that the Director, Mr. Harvey Banks, cannot be here. He has been invited to testify at this and two previous hearings, at which he has not been able to appear. We hope that we will be fortunate in having him before us again one of these days.

Now, Mr. Wright, you have a presentation; I believe we have it before us?

I would like to, before you start, Mr. Wright, state that there is a statement here from Senator Arnold which our Secretary has that he wishes to be included in the record.

* * *(Hereafter follows the statement of Senator Stanley Arnold as a part of this transcript:)

"Mr. Chairman, I appreciate an opportunity to submit a statement to this Committee on problems involved in the development and financing of local water projects. I understand this

hearing is particularly concerned with the sufficiency of this program -- with making a finding on whether the program enacted by the 1959 Legislature is doing what we believed it should do.

"I have some comments to make on that point. And I would point out that I was directly concerned in the deliberations leading up to the financing of local assistance for water development proposed in Senate Bill 1106, the water bond bill.

"As members of this Committee remember, I was a member of the informal committee formed to review Senate Bill 1106 as it took its course through the Standing Committee and the Senate itself.

"Our informal Committee was called a drafting committee and you may remember as a result of our efforts, at least in part, some 40 amendments were made to Senate Bill 1106 before it was passed by the Senate. It is also a matter of record that the Assembly passed the bill without making any further changes.

"Our job on this drafting committee was to attempt to make it clear that it was not just the Feather River plan that was being authorized. We were trying to set a pattern for development of a statewide water program which would take into account the future water needs in the areas of origin, as well as providing for delivery of water to areas of deficiency.

"Key sections of Senate Bill 1106, largely as a result of our efforts in the Senate, established a fund of \$130 million for this local assistance program.

"It was my belief in working for enactment of these sections that this fund should be used basically for the development of new water supplies and that the water so developed should be for use in the areas of origin.

"At the time we were considering amendments to Senate Bill 1106, the Department of Water Resources furnished us with a list of projects potentially eligible for assistance. The total cost

of these projects amount to just \$130 million.

"I understand you are making this list part of the record of this hearing. It seemed to me that the projects on this list would fulfill the purposes we were trying to accomplish. But in the applications that have come in for loans and grants from the interim \$15 million fund we provided, we find that only one of them is on this desirable project list.

"This one is the Allen Camp project in my district. It is a worthy project. But I am disappointed that assistance is not being sought, at least so far, from projects which meet the criteria we were attempting to establish.

"These criteria in brief were:

"1 - That the project should develop new or additional water supplies.

"2 - That this water would be used basically on the area of origin.

"3 - That the project would conform in its local impact to an over-all State program of water development.

"I hope this Committee will be able to come up with some conclusions which will insure that the program will meet these standards.

"I want to thank the Committee for the opportunity to make this statement."

* * *

CHAIRMAN TEALE: Also, Mrs. Davis worked as the co-author of the Act and also wanted to be present today, but unfortunately she has a hearing of her own on Fish and Game in Los Angeles today and tomorrow, and so she has also asked that she be permitted to insert a statement in the record, and if there are not objections, such will be the order.

(No objection was voiced.)

CHAIRMAN TEALE: Mr. Wright?

MR. JAMES WRIGHT: Thank you. Senator Teale, gentlemen: I am pleased to have the opportunity to discuss with your committee

today the financial assistance program authorized by the Davis-Grunsky Act. The Department of Water Resources feels that this Act is an extremely important part of the State's overall water program.

My presentation today will be in two parts. First, I will give you a brief factual report on activities under the Davis-Grunsky program to date, including a discussion of the policies adopted jointly by the California Water Commission and the Department of Water Resources last March. Second, I will answer as explicitly as possible the 17 questions asked in the letter of May 19 from Senator Teal.

For your information, we have attached to this statement copies of the following material:

1. Regulations for Administration of the Davis-Grunsky Act.
2. Informational brochure entitled "State Financial Assistance for Local Water Projects," dated December 1959.
3. Statement of Policies adopted by the California Water Commission and the Department of Water Resources for administration of the Davis-Grunsky Act.
4. List of applicants for assistance under the Act.

Immediately following the effective date of the Davis-Grunsky Act last September 18, the Department of Water Resources began preparation of administrative regulations for the new program.

In accordance with law, the proposed regulations were advertised, approved by the California Water Commission, and adopted officially on November 10, 1959. Most significant, these regulations provided for the two step application procedure now employed in making applications for assistance under the program, thereby allowing an agency to request the Department to make a preliminary determination of eligibility, before proceeding with the second step which entails preparation of a formal application and detailed feasibility report. This procedure permits

applicants to determine if they are qualified as to type of agency, type of project, statewide interest, conformance with the California Water Plan, and inability to finance, before they proceed with the more costly feasibility studies that must support formal applications for assistance. The regulations also laid down procedures for review of applications by the Department and the Commission.

In December of 1959 the Department published and widely distributed an informational brochure on the program. This booklet outlined the provisions of the Act, application procedures, and some of the criteria employed in processing applications. We also prepared and distributed application forms for preliminary determination of eligibility -- the first step of the two step application procedure.

To date, over one hundred interested public agencies in all parts of the State have asked for information on the program, or stated a need for assistance. To this date, twenty-four of these agencies have filed requests for preliminary determination of eligibility.

As we began to process the early requests, it became increasingly apparent that in fairness to the applicants and to the program itself, certain major policy questions should be decided before approval of any applications. The primary question related to the types of projects to be financed, with particular reference to distribution systems. Others concerned the determination of the inability of a public agency to finance on reasonable terms from other sources, and the amount of risk that the State should assume in approving developmental projects in relatively undeveloped areas.

At the regular meeting of the California Water Commission last February 4, all interested agencies and persons were given an opportunity to testify before the Commission on these questions.

At that time, the Department presented an analysis of their possible significance with respect to the program.

Following review of the testimony received at the February 4 meeting, the Department and the Commission formulated policies on these questions. These were set out in a joint policy statement adopted by the California Water Commission at its March 4 meeting, and by the Department of Water Resources on March 18.

The major policy adopted concerns the question of loans for distribution system projects. Briefly, the policy in this regard is that, unless and until the question is clarified by the Legislature, the Department and the Commission will give preference to projects that develop new basic water supplies, and that loans for distribution system projects will not be made except in hardship cases. Hardship is defined as the burden suffered by the existing population of a community or district due to the present or impending inadequacy of its existing water system, to the extent that it cannot satisfy present water requirements considering quantity quality, and delivery of water, thereby jeopardizing the public health, safety, or welfare.

The foregoing policy was adopted with full recognition of the fact that distribution system projects are, without question, eligible projects under the Davis-Grunsky Act as it now stands.

We should point out also, however, that the policy does permit the inclusion of distribution facilities as a part of an overall water development project.

The basis for this policy is the apparent possibility that all of the funds available for the program, including the \$130 million authorized by the Burns-Porter Act, could be expended on distribution system projects, without accomplishing any new development of the State's water resources whatsoever.

Briefly stated, the other policies adopted are:

1. That, in order to satisfy the requirement of inability

to finance from other sources, applicants must reasonably exhaust any available source of financing, including applicable assistance programs of the Federal Government, as well as the marketing of bonds. This is simply a restatement of the language of the Davis-Grunsky Act itself.

2. That loans and grants will not be made when water rights necessary for the project are in litigation. This is merely a matter of ordinary business prudence.

3. That the State should assume a reasonable risk in financing developmental water projects in relatively undeveloped areas, when standard methods of economic analysis indicate that the benefits can reasonably be expected to exceed the costs. Again, this is essentially a restatement of the language of the Act itself.

4. That a project has recreational features of statewide interest when it involves the conservation and use of natural resources for recreation, when it produces general community or area-wide benefits, and when the recreational facilities are open and accessible to the general public on a nondiscriminatory basis.

To date we have received 24 applications for preliminary determination of eligibility for assistance under the Davis-Grunsky Act. These requests involve about \$19 million in all, \$15 million in loans and \$4 million in grants.

Subsequent to the adoption of policies last March, we have completed processing 19 of these preliminary applications. We expect to complete the other five within the next month.

To date we have made favorable findings on 15 preliminary applications involving about \$6 million in loans and \$3 million in grants.

In making these favorable findings we are notifying the applicants that they meet the eligibility requirements of the Act as well as the joint policies of the California Water Commission and the Department of Water Resources.

The next step by the applicants is the filing of a formal application. As specified in the administrative regulations, the formal application consists of a letter stating the amount of funds applied for, accompanied by a feasibility report justifying the proposed project. Although we have not received any formal applications to date, several of the agencies found eligible are now preparing feasibility reports to support their formal applications. We expect to receive the first one early next month.

In view of the fact that the preparation of project feasibility reports may take several months, even for the smaller projects, it now appears that very little of the \$15 million now available for the program will be encumbered before the November 8 election.

This concludes our factual report on activities under the program to date. I will now answer the 17 questions asked in Senator Teale's letter of May 19.

Question 1. "The Department has established a joint policy with the California Water Commission giving priority to projects developing new basic water supplies. Would you define the term further? Do you believe review of this policy is desirable? Do you believe that any further priorities for any other types of projects are desirable, for instance, where public health is involved?"

A project that develops new basic water supplies would have to result in an increase in the water supplies of the State that are now available for consumption on a dependable firm yield basis. Consequently, such projects would include a storage reservoir to conserve and regulate water resources that are not now available for consumption on a dependable and timely basis.

For example, suppose that the average annual runoff of a local stream is large enough to satisfy the requirements of a nearby district, but the flows are less than the water requirements

during the summer months and in dry years. Reservoir storage would then be necessary to carry-over winter flows for use in the summer and to carry over water from wet years for use in dry years. The project in this case might consist of a dam and reservoir on the stream, a conduit to the service area, and distribution facilities in the service area. Such a project would be a basic water development project because it would convert the water resources into a dependable water supply.

On the other hand, if the existing flows of a given stream are such that water can be diverted and delivered to consumers in accordance with their demands on a dependable basis without seasonal or annual carry-over storage in a reservoir, then no new water development is involved, because the water is already available for consumption on a firm yield basis. Any project delivering such water would be a distribution project. The fact that the water may be wasted or unused without the distribution project would not alter the definition.

The key question in this strict definition is "Does the project convert an unregulated or undependable water resource into a dependable water supply or does it merely distribute a dependable supply that is already available?"

When we are here speaking of the Davis-Grunsky Act, we must of necessity consider it together with, and in the light of, the funds which are provided for its administration -- that is, the \$130,000,000 provided in the Burns-Porter Act. The entire theory of the Burns-Porter Act is the provision of water development, as distinguished from purely local distribution, facilities. It is apparent from the discussion and the debate which preceded the Act that it was contemplated that the funds made available were to be utilized principally for the development of new supplies of water.

The \$130,000,000 was provided, as we understand it, to

permit the construction of water development facilities for local areas that were not susceptible of service from major export projects. Therefore, we feel that the legislature intended that we restrict, as much as possible, the use of the \$130,000,000 to loans for the construction of water development facilities of a type similar to those which will be constructed with the major portion of the \$1,750,000,000 provided in the Burns-Porter Act.

While it is true that loans and grants for distribution systems technically are authorized under it, we believe that the Legislature contemplated, in the main, that the Davis-Grunsky Act be used as a vehicle for making loans of the type previously described. Were this not to be done a substantial portion, if not all, of the \$130,000,000 could be utilized for construction of distribution facilities without developing any new water, which would be contrary to the obvious underlying purpose of the Burns-Porter Act which makes those funds available.

In answer to the second part of the question, the Department does feel that legislative review of the distribution system question is desirable and we would welcome such review. The basic question is whether or not the Davis-Grunsky funds should be used primarily to finance water resources development. The Department of Water Resources believes that water resources development should be the basic objective of the Davis-Grunsky Act.

The third part of the question is:

"Do you believe that any further priorities for other types of projects are desirable, for instance where public health is involved?"

Experience in the program to date has not indicated that any further priorities are necessary at this time. We feel that the program is not a crash program or an emergency program, and that we can well afford to let further experience identify other

areas where additional priorities may be necessary.

With regard to public health, you will recall that this is one of the factors involved in defining distribution system projects involving hardship. Such projects are on an equal basis with water development projects, so far as priorities are concerned. Also, the brochure published by the Department on the Davis-Grunsky program states on page 15:

"Among the factors to be considered (in establishing priorities among eligible projects) are the extent of statewide interest, and the public necessity and urgency of the need for the projects."

Question 2. "Do you have any estimate of total costs of local basic water supply projects which would be necessary or desirable in the next 20 years?"

While developing "The California Water Plan" and conducting the California Water Planning Program, the Department has made numerous planning studies of potential local projects. Nearly 30 projects throughout California, requiring on the order of \$200,000,000 to construct, have been identified as water resource development that could, in the foreseeable future, significantly enhance the economy of local areas and consequently the State. This is understandably not a complete total for with further and more extensive planning and with the growing need for new water supplies, additional projects will be conceived.

On the other hand, not all of the projects will prove to be feasible within the foreseeable future. In any event, not all of the cost would need to be financed under the Davis-Grunsky Act. Substantial funds could come from other sources such as sale of bonds and federal loans and flood control grants.

When the Department suggested the inclusion of the \$130,000,000 as a figure for local water development projects, it did so in response to a feeling that local areas should, as

nearly as possible, be put upon a parity, in the satisfaction of their water needs, with the areas which would be supplied with water from the major export facilities which were to be constructed with the remainder of the \$1,750,000,00.

Question 3. "An estimate of the total cost of all local projects eligible under the act, which are necessary or desirable in the next 20 years."

All of the projects included in the \$200,000,000 estimated total cost for projects that would be necessary or desirable, would be eligible for a State loan or grant, so far as type of project is concerned. The actual requirement for Davis-Grunsky funds, however, will depend on the feasibility of the projects. The test of feasibility will depend upon whether an investment in water development at the time of construction would result in water costs that are acceptable to the beneficiaries of the project. Each project must be subjected to engineering and economic analysis, and local people must have the incentive and willingness to incur a major indebtedness.

Question 4. "An estimate of the total cost of irrigation system necessary to distribute water to farms as a result of deliveries under S. B. 1106. The estimate of the local ability to finance these."

The preponderance of new irrigation distribution systems which would have to be constructed to accommodate deliveries from the State Water Facilities are in the San Joaquin Valley and Santa Barbara, Riverside, and San Diego Counties. Capital cost figures have not yet been developed for irrigation distribution systems in areas served by the South and North Bay aqueducts, and in the Feather River Service Area.

Our present estimate of the capital cost of construction systems from the main aqueduct is approximately \$115,000,000, with the breakdown of that figure by major geographical areas

being as follows:

San Joaquin Valley Service Areas, \$76,000,000, Southern California Service Areas \$39,000,000, Total, \$115,000,000.

The capital outlay for these systems would not all be required at one time, but would be spread out over a period of years which would be determined by the time when state water is first available and the rate of development of the respective service areas.

Regarding the second part of Question 4, our studies to date indicate that the southern San Joaquin Valley service areas will experience more difficulty than southern California areas in financing the construction of distribution systems through conventional channels. The most critical service areas in this respect appear to be Kettleman Plains and Kern River Delta. A major factor confronting many of the prospective agricultural service areas, whether they be in southern California or southern San Joaquin Valley, is their relatively undeveloped state and consequently low assessed valuation. This poses obvious near-term financing problems even though the long-term development prospects are good.

If the irrigation service areas were included in a master district, or were a part of an entity embracing urban areas, either one of which would contract with the State for water service, the resultant broadened tax base would tend to enhance the ability of irrigation areas to finance construction of their necessary distribution systems.

Question 5. "How did the Department arrive at the 25 per cent debt requirement mentioned in page 10 of the departmental booklet for applicants?"

The statement in question appears on pages 10 and 11 of our informational brochure. It reads as follows:

"In general, agencies that would have a direct and overlapping

debt, including the cost of the project, of less than 25 percent of their assessed valuation would probably have difficulty in showing that they are unable to finance from other sources."

This statement was not intended, and is not, a requirement in itself. Its sole purpose was to give interested agencies some indication as to their likelihood of satisfying the inability to finance requirement of the Act. The Department simply desired to emphasize the limitation in the Act on loans to applicants who had the ability to finance their projects from other sources, so that such applicants would not go to the expense of preparing an application without careful consideration.

The statement is based on a general "rule-of-thumb" used by many bond buyers to the effect that the bonds of an agency whose direct and overlapping debt is less than 25 percent of the assessed valuation may be a reasonable risk.

Question 6. "Does the Department have any views as to whether there should be a limit on the total cost of a project as a part of eligibility standards? Should the local agency be required to put up a fixed amount or proportion of project costs?"

We feel that the eligibility requirements should not include a limitation on total project cost. The development of the State's water resources to meet local needs certainly will require projects ranging from small and simple to large and complex. All should receive equal consideration, in our opinion.

The Act as it stands sets no limit on the total cost of a project, but it does specify that state assistance is limited to that part of the cost that the applicant cannot reasonably finance from other sources.

We would expect that many of the larger projects will be

financed in part from other sources, including the sale of bonds and federal loans or flood control grants, with supplemental financing by the State to push them over the top. As a matter of fact, we have already received preliminary applications for several small projects to be financed in this way. Finally, we would like to point out that some of the larger projects may provide particularly attractive recreational opportunities; consequently, a limit on total cost would prevent desirable grants for recreation and the enhancement of fish and wildlife.

In answer to the second part of the question, we do not feel that local agencies should be required to provide a fixed amount or proportion of project cost. The inability to finance clause already requires any applicant to finance all of the cost that it can from other sources. A requirement that applicants furnish a fixed amount or proportion of the project cost could, on the one hand, provide state funds to applicants who could easily finance most or all of the cost themselves. On the other hand, such a requirement might preclude state assistance to applicants in undeveloped areas with little or no capacity for raising capital funds. In the latter regard, one of the great benefits of the program may arise from assisting such areas to create an environment where economic growth can take place.

Question 7 asks: "Please comment on whether the state might loan money for feasibility reports on local projects. Please comment on whether the state should make this service available by the department staff. Is there any possible alternative in the determination of project eligibility to submission of a feasibility report?"

We feel that there may be some merit to the suggestion that the State loan money for investigations and preparation of feasibility reports on local projects, in certain cases. Some agencies, especially newly organized districts in undeveloped

areas, have considerable difficulty in raising funds for project planning purposes, and are unable to proceed for that reason. The problem does not apply to all cases, however, for many applicants can and are financing their project investigations and feasibility reports themselves.

The Davis-Grunsky Act as it stands does not permit loans for feasibility reports -- the funds are for project construction. In the event the Legislature wishes to provide for such loans, it might wish to consider whether or not the funds should come from those presently set up for the program -- thereby reducing the amount available for construction -- or from other sources.

Also, we would suggest that any such loan program should contain adequate safeguards to insure a responsible and productive use of the money. In particular, we believe that any loans made for feasibility reports should be repaid regardless of whether the finding of the report on the feasibility of the project is favorable or unfavorable, and that such loans should be repaid within a relatively short time, say 10 years at the most. Finally, it should be recognized that the equitable and responsible administration of such a program would not be a simple matter.

Regarding the second part of the question, we feel it would not be desirable for the Department itself to make feasibility reports for the applicants.

In the first place, Davis-Grunsky projects are local projects not state projects, and we feel they should be proposed by the local people themselves. Second, the Department would be in a position of approving or rejecting a loan or grant on its own plan, rather than that of an applicant. Finally, the Department does not believe that it should pre-empt a field that is entirely within the scope of private consultants.

Regarding the third part of the question, feasibility reports are not required to determine the eligibility of an applicant or

project, but they are required to determine the feasibility of proposed projects. We feel there is no reasonable alternative to the submission of a project feasibility report, whereby the Department can evaluate the adequacy of the project plan and its economic soundness. In this regard, however, there is no disposition on our part to place unwarranted demands on the applicants -- feasibility investigations and reports can be confined to what is actually needed and no more. Such reports, after all, are nothing more than any agency would want to have before it undertakes construction of a water project, regardless of the source of financing.

Question 8. "What should be included in a feasibility report? Why should secondary benefits be excluded in showing economic justification?"

As was stated in our answer to Question 7, the feasibility report is largely a documentation of the findings from studies which the applicant would need to perform regardless of the method of financing. The feasibility report should contain sufficient information and data to demonstrate that the proposed project is engineeringly feasible, economically justified and financially sound. The amount of detailed information required will vary with the type, purpose and complexity of the project, but in general the report should contain the following:

(a) A general description of the project plan, purpose and accomplishments, with a map showing the project features and service area.

(b) Studies of water resources and water requirements, including project operational studies demonstrating the accomplishments of the project.

(c) Status of water rights necessary for operation of the project.

(d) Preliminary designs and cost estimates of the project

features in sufficient detail to establish probable cost of the project. Estimates of annual costs of operation and maintenance should also be included.

(e) Economic studies to establish the benefits and economic justification of the project.

(f) An allocation of costs among the purposes of the project, if the project has more than one purpose.

(g) Financial studies indicating the proposed method of financing, sources of revenue, and repayment schedule.

Regarding the second part of Question 8, secondary benefits are net values attributable to a project that accrue to persons other than primary beneficiaries. This results from the economic activity induced by or stemming from the primary beneficiaries. A large part of secondary benefits usually represent transfer effects rather than new or incremental net values. That is, they represent a shift of economic activity from one area to another, with the gains in the project area being offset, to an unknown extent, by losses occurring elsewhere. Consequently, the inclusion of secondary benefits, for purposes of economic justification, is not considered to be sound economic practice. This is also the standard practice of the Federal agencies in evaluation of water projects.

Secondary benefits, however, are of real and considerable significance to the local area. Moreover, they can be used effectively by local groups in arriving at an equitable distribution of project costs among beneficiaries. Such benefits should be treated qualitatively in the feasibility report to assure that no significant factors are overlooked.

Question 9. "What plans or forecasts does the Department have for state participation in local projects under Section 12880-F of the Act? What source of funds might be used?"

As the law stands, state participation in local projects

is initiated through the filing of an application for such participation by the local agency. The Department is required to make a report on each application and to file the report with the Legislature. Whether the Department participates in the particular project on behalf of the State depends upon whether the Legislature expressly authorizes the Department to participate.

In view of these circumstances, the Department has no specific plans or forecasts for state participation at this time. Under the law, the basic initiative is with the applicants.

None of the 24 applications received to date involves any possible participation by the State in constructing a project larger than the applicant needs for its own requirements. However, we consider the provision for state participation an important one, and we expect to identify any need for such participation when we appraise proposed projects for conformance with The California Water Plan.

Regarding sources of funds, Section 12882 of the Davis-Grunsky Act precludes the use of the existing Local Projects Assistance Fund of \$15 million for State participation in local projects. Consequently, any State participation at present would have to be financed by special appropriation by the Legislature from other sources.

Under the Burns-Porter Act, State participation could be financed either from the \$130 million of bond proceeds earmarked for Davis-Grunsky projects or from the California Water Fund, provided, of course, the Legislature authorizes the Department to participate. Regardless of which source was used, the total funds available through the Burns-Porter Act for the Davis-Grunsky program would still be \$130 million, in our opinion.

Question 10. "May grants as well as loans be necessary or desirable for construction for purposes other than recreation and fish and wildlife enhancement? Would grants larger than

\$300,000 be necessary or desirable in some cases?"

Experience in the program to date does not indicate a necessity for grants for purposes other than recreation and enhancement of fish and wildlife. In this regard, it will be recalled that the original statute adopted in 1957 contained a provision that grants could be made for other purposes in unusual circumstances. In amending the original "Grunsky Act" in 1959 to establish the present "Davis-Grunsky Act," the Legislature deleted that provision.

We assume that the second part of the question refers to the grants that can be made for recreation and the enhancement of fish and wildlife. If so, our answer is that grants larger than \$300,000 may very well be necessary and desirable, in individual cases. Of course, all grants, regardless of amount, must be justified on the basis of public benefits.

The Davis-Grunsky Act already permits grants larger than \$300,000. That limit applies only to grants the Department itself can make, with the approval of the California Water Commission. Larger grants simply require specific approval by the Legislature in each case. Of the 14 preliminary applications for grants received to date, only one is for more than \$300,000. We would expect that the vast majority of applications for grants will be \$300,000 or less.

Question 11. "To what extent should the local agencies have to exhaust other sources of financing? What is sufficiency of proof of inability to finance? Should further development or growth be taken into account in determining ability to use water and ability to pay? What degree of risk is the State justified in taking in making loans on basis of future economic development instead of present financial resources?"

As the first two segments of this question are closely interrelated, we should like to so consider them in our reply.

At its regular meeting held on March 4, 1960, in Sacramento, the California Water Commission adopted a statement of policy for administration of the Davis-Grunsky Act. Included in that statement of policy was a section, quoted below, bearing directly on these queries. We did earlier, and do now, concur in the position adopted by the Commission:

"Reasonable inability to finance from other sources will be established when all of the following conditions exist:

"1. When the proposed project is not eligible for financial assistance under a program of the Federal Government, or, if the project is eligible for such assistance, when: (a) there is no reasonable possibility that funds could be obtained due to administrative policy of the Federal Government or to lack of funds, or (b) when the need for the project is so urgent that the time factor would reasonably preclude an effort to finance from federal sources.

"2. When the agency cannot market bonds at an interest rate commensurate with the feasibility of the project, such inability to be demonstrated to the satisfaction of the Department and the Commission.

"3. When the agency has no other funds, or sources of funds, available to finance the project."

The second two segments of your question likewise are closely interrelated. We believe emphatically that future development or growth should be taken into account in analyzing both the ability of a loan applicant to use water beneficially and its ability to repay the capital costs of providing such water. It must be recognized that there are many local areas in the State that have present or prospective economic potential, (admittedly in varying degrees) but do not have the financial resources to provide the water supply works required to realize fully the potential. In fact, it always has been our conception

that the Davis-Grunsky Act was fundamentally directed toward such situations.

If this view is correct, and we believe that the record amply supports its being so, it is almost a corollary that projects eligible for loans generally will be characterized by an element of risk greater than that which private lenders are willing to accept in underwriting capital needs. It is difficult to say precisely what degree of risk would be justified for the State to take in making loans on the basis of future economic development instead of present financial resources. Obviously, a project which does not meet standard criteria of engineering feasibility and economic justification would pose an unconscionable risk. However, where these criteria are fully satisfied and the sole question is whether or not the borrowing entity can meet the repayment obligation when its capacity to do so is partially dependent on the creation of future values by the project, it becomes almost impossible to be dogmatic about the degree of risk.

As our experience in administering the Davis-Grunsky program broadens, we may be able to discern at least some general limits to apply to this question of defensible assumption of risk by the State. We certainly have been and shall continue to study the matter intensively and we welcome constructive assistance or comment in respect to it from any responsible quarter, public or private. In the meantime we believe that the evaluation of each proposed project by the Department's professional staff, coupled with the California Water Commission's objective review of the Department's recommendations prior to approval or disapproval of a loan, will guard against commitment of state funds at undue risk on the one hand, and, on the other hand, will prevent a posture of excessive administrative conservatism which could have the effect of nullifying the objectives of the Davis-

Grunsky Act.

Question 12. "What is available in funds from other agencies such as Fish and Game? To what extent should state agencies coordinate in granting assistance?"

Aside from the Davis-Grunsky program, the State has two other programs providing funds for recreation or fish and wildlife purposes.

The wildlife Conservation Board constructs a wide variety of recreational facilities, without cost to local agencies, except for operation and maintenance. The program is geared closely to facilities for hunters and sport fishermen, but these facilities are often of such a nature that they are used by many other recreationists as well. Projects constructed under the Board's program are state projects; the program does not provide for participation in the construction of water supply projects, but it can and has resulted in the construction of on-shore recreational facilities at reservoirs built by local agencies.

The Board receives its funds from parimutuel revenues. About \$750,000 annually has been available for the program since 1955. We understand that the present backlog of proposed projects exceeds the funds currently available.

The second state program is administered by the Division of Small Craft Harbors and the Small Crafts Harbors Commission. The program provides for loans to local public agencies for the planning and construction of boating facilities, in marine waters as well as on inland rivers and reservoirs. We understand that no facilities at inland reservoirs have been constructed under the program to date, but that applications have been approved for boat launching facilities at Mono Lake and Eagle Lake.

Again, direct participation in the development of local water projects is not authorized, but the program could provide financing for small craft harbor facilities on reservoirs constructed under the Davis-Grunsky Act. We understand that the

applications submitted to date exceed the \$10 million now available for the program.

The programs of both agencies can supplement the grant provisions of the Davis-Grunsky Act. Davis-Grunsky grants, for all practical purposes, can be made only for the portion of dam and reservoir costs properly allocated to recreation and/or enhancement of fish and wildlife. The programs of both the Wildlife Conservation Board and the Division of Small Craft Harbors can apply state financial assistance to on-shore recreation facilities. Since a recreation development at a reservoir must have the basic water resource plus on-shore facilities, it can readily be seen that the Davis-Grunsky Act plus one of the other programs might provide a complete recreation development.

In answer to the second part of the question, we feel that state programs of this type should be closely coordinated. At the time amendments to the Davis-Grunsky Act were being considered by the Legislature in 1959, specific attention was given to preventing overlaps with the programs of the Wildlife Conservation Board and the Division of Small Craft Harbors. We have continued to coordinate the Davis-Grunsky program with both of those agencies.

Question 13. "Is the present relationship of the Department and the Commission in the processing, approving and granting of loans and grants satisfactory?"

Our answer is yes. We have no reason to think that any change in the relationship between the Department and the Commission is either necessary or desirable.

Question 14: "Would you comment on the possibility of continuing the present \$15,000,000 funds as a revolving fund; and of constituting the \$130,000,000 fund proposed in the Turner-Porter Act as a revolving fund? Have you a suggestion as to a fund source for repayment of bonds if the \$130,000,000 loan fund

were made a revolving fund?"

Upon the effective date of the California Water Resources Development Bond Act, the local projects assistance fund (the \$15,000,000 fund) will be abolished, by virtue of Section 14 of Chapter 1752, Cal. Stats. 1959. All resources of that fund will be transferred to the California Water Fund. The Bond Act, if adopted at the November, 1960, general election, will become effective prior to the next session of the Legislature.

The 130 million dollars of bond proceeds which the Bond Act would make available for the use for Davis-Grunsky Act activities would be deposited in the California Water Resources Development Bond Fund. Money received by the State in repayment of loans made from those proceeds would be considered as revenues derived from the State Water Resources Development System and would be used for the purposes prescribed in the Bond Act. The fact that the Bond Act provides that the revenues derived from that System are pledged for the uses and purposes set forth in the act would appear to preclude an amendment of the act to provide that money received from repayment of loans made from those bond proceeds may be used for further loans under the Davis-Grunsky Act, that is, to make the 130 million dollars of bond proceeds a revolving fund.

Since, as indicated above, it would appear that the 130 million dollars could not be made a revolving fund, we have no suggestions as to a fund source for repayment of bonds if the 130 million dollars were made a revolving fund.

Question 15. "Would you comment on the relationship of the state loan program with that of the Federal Government under Public Law 984?"

Projects eligible for federal loans under Public Law 984 must be primarily for irrigation, and must not cost more than \$10 million. The maximum loan for any one project is \$5 million less costs of rights of way and water rights.

Such projects are also eligible under the much broader Davis-Grunsky Act, but State loans can be made only for the part of the cost that is beyond the reasonable ability of the public agency to finance from other sources, including the Public Law 984 program. Thus, the Davis-Grunsky Act is supplemental to, rather than in competition with Public Law 984.

Specifically then, the state program is related to the federal program in two ways:

1. The state program can provide supplemental financing for projects that are eligible under Public Law 984, but cost more than the Federal Government can lend.

2. In determining the reasonable inability of Davis-Grunsky applicants to finance from other sources, the Public Law 984 program is an alternate source of financing.

The case of the South Sutter Water District precisely illustrates the relationship between the state and federal programs. The total project cost is about \$6,000,000. The maximum loan the Federal Government can make is \$4,800,000. By special act of the Legislature, the State will lend the District the additional funds it needs to complete the project. Under the inability to finance clause of the Davis-Grunsky Act, the State could not lend the \$4,800,000, unless the District could show that it could not reasonably obtain that amount from the Federal Government, or other sources.

Question 16. "Should a limit be placed on the portion of the state loan funds that could be disbursed for grants?

The Department's view is that there should be such a limit. Grants, by common definition, are non-reimbursable; by specific language in the Davis-Grunsky Act, they are "incidental to the primary function of the project".

As non-reimbursable expenditures, grants, in the final analysis, are a charge against all taxpayers in the State. This

fact alone suggests that a degree of restraint must be exercised in making grants.

As expenditures for "incidental" purposes, important and desirable as these purposes may be from the standpoint of general public satisfaction, grants should not attain proportions which would tend to reduce significantly the capital resources available for "primary" purposes.

Your committee no doubt is aware that legislation recently has been introduced in Congress which would permit up to 10 percent of the cost of federally constructed and/or financed water development projects to be allocated to such non-reimbursable purposes as those for which Davis-Grunsky grants may now be made. Davis-Grunsky grants themselves, of course, may be made up to \$300,000 without specific legislative approval. This is $7\frac{1}{2}$ percent of the \$4,000,000 maximum Davis-Grunsky loan which can be made without such further approval.

Although we were not asked to comment specifically on the degree of limitation, and we do not presently have a firm recommendation to submit on this score, we believe that the two figures cited above, that is, $7\frac{1}{2}$ percent and 10 percent represent a reasonable range for the portion of the total available funds which should be employed to make grants under the Davis-Grunsky Program.

Question 17. "Would you comment on the ability under present law of various local agencies to borrow from the State under Chapter 1752 and to contract for repayment of these loans?"

Section 12880 (h) of the Davis-Grunsky Act provides that nothing contained in the Act "shall be construed to expand the powers of any public agency otherwise granted by law". Public agencies applying for loans must, therefore, demonstrate that they have sufficient powers outside of the act to borrow from

the State and to contract for repayment of the loans.

The department's examination of requests for loans received from districts formed under the following district acts provides an indication of the sufficiency of such powers: Irrigation District, County Water District, Municipal Water District, Public Utility District, County Waterworks District, and Community Services District. The examination revealed that certain of the acts, such as the County Water District Act, provide general authority for the agency to borrow money for district purposes, whereas other acts, such as the Irrigation District Act, do not. The acts neither expressly authorize nor prohibit the districts from borrowing money from the State.

Each act contains express provisions for obtaining long-term loans through the issuance of district bonds, following an election authorizing their issuance. The power to issue bonds is supported by provisions authorizing the levying of taxes or assessments to pay off the bonded indebtedness. In some cases, such as the Public Utility District Act, the act contains a debt limitation which prevents the districts from incurring a general obligation bond indebtedness above an indicated amount. Also, some of the acts expressly require the districts to offer their bonds to the public first before selling them at private sale.

In view of the fact that these acts set forth the bond issuance procedure, including the election requirement and, in certain cases, a limitation on the amount of bonded indebtedness, as a specific means of obtaining long-term loans, it is not entirely clear that the laws governing the districts mentioned provide them with the power to contract for a state loan without the issuance of bonds to the State. Therefore, as a precautionary measure, it is contemplated that in those cases where the governing statute does not expressly authorize the agency to contract for a state loan without issuing bonds to the State, the

loan agreement with the agency would include provisions for receiving the agency's bonds. The bonds could be received after the agency has first attempted to sell them to the public and, consequently, would serve the added purpose of a partial test of the agency's ability to finance the project from another source.

It, therefore, appears that, in general, the agencies have sufficient power to contract for a loan from the State provided the bond issuance procedure is followed and no debt or other limitations in their governing statutes would be violated. Of course, in the final analysis, it is a matter of examining the law governing the particular agency to determine whether the necessary power exists.

This concludes the Department's statement. We will be pleased to discuss any of these questions with you in further detail if you wish.

CHAIRMAN TEALE: Thank you very much, Mr. Wright. We appreciate the detail you have gone into to answer our numerous questions. We realize that some of them are probably a little difficult. I think there will be questions from the Committee.

If you wish to take another extra drink of water for a moment to get you back on your feet, I would like to introduce another member of the Committee, Senator Slattery, Mendocino and Lake Counties, who came in a moment late.

Now, are there questions from the Committee?

SENATOR WILLIAMS: I would like to ask a couple of questions.

CHAIRMAN TEALE: Senator Williams on 21.

SENATOR WILLIAMS: Mr. Wright, would you turn to page 24 of your statement, please?

MR. WRIGHT: Yes, sir.

SENATOR WILLIAMS: Now, at the top of the page there where you say "It must be recognized that there are many local areas in

the State that have present or prospective economic potentials, admittedly in varying degrees", then you go on to state there "The State of California must assume some risk", as I understand it?

MR. WRIGHT: That's right.

SENATOR WILLIAMS: Now, is it the Department's feeling they should go ahead, then, and develop that, if they feel that there is a definite economic potential and then once that potential has been established, then that area would actually pay back the loan; is that right?

MR. WRIGHT: Yes. The Department feels that if it is a prudent risk, that cognizance can be taken of an economic potential in an area where its present position may not be such that a commercial loan would be readily available.

SENATOR WILLIAMS: Then are we talking about an area that is unsettled and undeveloped, but it has a definite potential if it can be developed, and it would be a poor risk from the standpoint of a private lending agency, but it would be all right for the State to go into it; is that right?

MR. WRIGHT: Well, it would be all right from a point of view of the State provided that there is reason to believe that it will develop adequately, so that we are not risking the loan in a serious fashion.

SENATOR WILLIAMS: Let's take a case: I have ten thousand acres of land, no development on them, and I can't get any money for it, and I go to the State and say "This has a potential" and the State agrees that it does have. In other words, then I can get financed by the State to make this development; is that right?

MR. WRIGHT: Well, no, unless you are a public agency.

SENATOR WILLIAMS: You have to be a public agency?

MR. WRIGHT: Yes; I do.

SENATOR WILLIAMS: I could form a district?

MR. WRIGHT: You would have to be a public agency, and you would have to have financing power, that is, the taxing power, or a revenue source which in the judgment of the State would make it a good risk.

SENATOR WILLIAMS: Even though then I would form a community services district, or some other type of district, that would be satisfactory insofar as the district taxing power is concerned; is that right?

MR. WRIGHT: The economic and financial strength of the district would have to be evaluated.

SENATOR WILLIAMS: Yes. It would be evaluated by the Department first?

MR. WRIGHT: By the Department, yes.

SENATOR WILLIAMS: Now, I have one more question here. On page 33. I don't seem to grasp from what you were reading what I was reading. That's why it just brings up this question: If a local agency decides that they want to float a bond issue, we'll say, but yet they can't sell those bonds, or maybe they have tried to sell and the interest rate would make it prohibitive, then they could offer those, if they could get the State then to give them a loan under this act, then they would put up those bonds as collateral; is that right? Against the loan?

MR. WRIGHT: I'm going to have to ask my attorney for an opinion on that. Would you take that, Mr. McGrath?

CHAIRMAN TEALE: Would you use the microphone, please?

MR. SAMUEL V. MC GRATH: As the statement indicated, because of lack of clarity of power on the part of these districts to deal with the State for a loan under the act, as a precautionary measure we would take the bonds. Now, the loan agreement would have provision for disbursement of the authorized loan amount

to the agency, and the agency in turn would issue a certain amount of bonds to the Department. The amount agreed, of course, and the amount of the loan disbursement. So really, we might term it "collateral", but in essence, it would be an agreement to pay a certain amount to the State and could be tied up in the bonds.

SENATOR WILLIAMS: Now, I'm reading here, the latter part of the first paragraph on page 3, "The bonds could be received after the agency had first attempted to sell them to the public, and consequently would serve the added purpose of a partial test as to the agency's ability to finance the project from other sources."

Well, now, what I'm trying to get at, I don't tie that in with what I think are the powers of the Department. In other words, would it possible, then, for an agency to have a bond issue, they offer them for sale, they don't like the interest rate, then they turn around and offer them to the State and that would be a partial test of the agency's ability to finance the project from another source? In other words, they could vote any amount of bonds they wanted to, and could the State by offering them to you people, would you be bound to take them?

MR. WRIGHT: We are not bound to take them, Senator.

SENATOR WILLIAMS: You probably would if you felt it was feasible?

MR. WRIGHT: If we felt it was a good risk.

SENATOR WILLIAMS: If they weren't over-bonding their property?

MR. WRIGHT: That's right.

SENATOR WILLIAMS: I think there is one other item in here that same question would seem to cover. Before they vote on these bonds, does the District Securities Commission -- I mean

before they take a vote, does the District Securities Commission have to okay them or is it after they have voted on them, or are they involved under the Davis-Grunsky Act at all?

MR. MC GRATH: They are to a degree, Senator, in the case of irrigation districts, for example.

SENATOR WILLIAMS: Let's take a case that isn't under the District Securities Act, or let me say it another way: Would all bond issues be under the District Securities Act or only the irrigation district bonds?

MR. MC GRATH: In the case where the particular district law does not require the District Securities Commission to be involved, no. The only time the Commission would be involved is where the agency itself goes to the Commission under Division 10 of the Water Code and requests that the Commission approve the bonds for certification by the State Comptroller.

SENATOR WILLIAMS: Just the State Comptroller, then, is the only one that would have to act on it?

MR. MC GRATH: Well, the Commission itself in each instance where an agency, a district requests action by the Commission under Division 10 of the Water Code, namely, approval of the bonds for certification by the State Comptroller, why the Commission does become involved. There are certain district acts that require that the Commission approve of the proposed bond issuance. The Irrigation Districts Act is an example, and the California Water District Act is another example.

SENATOR WILLIAMS: I think this is the second point that I had in regards to this paragraph on page 33: "Therefore, as a precautionary measure", and I'm reading now from the center of the paragraph, "it is contemplated in those cases where the governing statute does not expressly authorize the agency to contract for a State loan without issuing bonds to the State, the loan agreement with the agency would include provisions

for receiving the bonds." Now, you are talking about the loan agreement between the agency and the State, are we?

MR. MC GRATH: That is correct.

SENATOR WILLIAMS: That leaves it up to the Department to designate whether or not such an agreement should be written in for the State to receive the bonds; is that correct?

MR. WRIGHT: That's right. Depending on their governing statute.

SENATOR WILLIAMS: Now, one other question right at that point: Is the California Water Commission involved in that too?

MR. WRIGHT: I don't believe so.

MR. MC GRATH: Well, sir --

MR. WRIGHT: Maybe I'm wrong.

MR. MC GRATH: They are involved to this extent: They, of course, under the Davis-Grunsky Act, must approve the proposed loan before the Department can carry forward and enter into this loan agreement.

SENATOR WILLIAMS: Do they also have to approve the project as to its financial feasibility?

MR. MC GRATH: Well, their approval of the making of the loan would encompass that.

SENATOR WILLIAMS: Would include that? All right. Then as a final question: There are two shots at this deal from the State standpoint; is that right? Two checks, one of them through the California Water Commission and one through the Department; is that right?

MR. WRIGHT: Yes; that is true.

SENATOR WILLIAMS: In other words, there are two redcoats before any action is taken to consummate a deal?

MR. MC GRATH: That is true.

SENATOR WILLIAMS: That is all I have, Mr. Chairman.

CHAIRMAN TEALE: Any questions?

SENATOR COBEY: Mr. Chairman?

CHAIRMAN TEALE: Mr. Christensen first.

SENATOR CHRISTENSEN: This is a fundamental question, but certainly water will be provided through the State Water facilities as authorized by Senate Bill 1106, which will also include a construction of aqueducts to carry that water to areas which will be served by it. Now, is it your understanding that the Department can recommend to the Commission, and the Commission could approve a loan made to one of the agencies in that area which will receive that water, which will be transported there by the State Water facilities? In other words, take a typical situation of San Diego County, where the water will be transported eventually to a reservoir I believe near Perris, San Diego County, and any agency in there would be deemed to be a proper applicant under the tests you have set forth here and the Commission could pass for a loan from the State of any portion of the one hundred thirty million dollars to distribute that water from the terminus there to San Diego County?

MR. WRIGHT: Really, Senator, distribution systems are permitted to be included under the act. From a practical point of view, I would think that San Diego County might have some difficulty in showing some financial inability to handle it.

SENATOR CHRISTENSEN: Assuming it did not, sir. Isn't it true the Department is charged specifically under the terms of the Burns-Porter Act with the construction of the State Water facilities and the construction of the transmission facilities to bring the water down there?

MR. WRIGHT: Yes.

SENATOR CHRISTENSEN: Is it also true, then, that the one hundred thirty million dollars which was intended, at least was represented at the time of debate on this Burns-Porter Act, to

be available for local water projects, apparently not those which would be served by the transmission or storage facilities under the Burns-Porter Act?

MR. WRIGHT: We have taken the position as a matter of policy, as indicated in my response to the first question, that priorities should be given to development of new local water resources and not to the distribution of water from existing sources, and this is the policy that we recommend.

SENATOR CHRISTENSEN: Apparently that policy has not yet been established. It would be proper today, would it not, for the Department to approve such a loan?

MR. WRIGHT: It would be legal, but under the policy adopted by the Commission and subscribed to by the Department, pure distribution loans except in hardship cases are being given a lower priority than development of basic water supply loans.

SENATOR CHRISTENSEN: If there be any change in the policy as you have expressed it and as it exists today by the Department, the Legislature would not have to be consulted? These regulations and policies that have been established in 1960 could be changed by both the Department or the Water Commission?

MR. WRIGHT: That is quite true.

SENATOR CHRISTENSEN: So under those circumstances as it exists today, the one hundred thirty million dollars could be available, depending upon, or taken on the applications by an area or an agency, rather, within an area that has no water supply, but which would have water supplies by reason of the creation of the State Water facilities?

MR. WRIGHT: Well, you are speaking, I think, sir, of hooking into the State Water facilities a distribution system financed by this; is that correct? This is legally possible under the policy as now being followed. It would not have the same priority that a basic new supply would have, and the policy

that we are trying to follow is that the distribution systems would not be, except in hardship cases, given the same priority that new water system would have, except where the distribution system is incidental to the development of the new water system, and I believe, if I could quote this: "For example, suppose that the average annual runoff of a local stream is large enough to satisfy the requirements of a nearby district, but the flows are less than the water requirements during the summer months and in dry years." This is on page 6. "Reservoir storage would then be necessary to carry over winter flows for use in the summer, and to carry over water from wet years for use in dry years. The project in this case might consist of a dam and reservoir on the stream, a conduit to the service area, and distribution facilities in the service area. Such a project would be a basic water development project because it would convert the water resources into a dependable water supply. On the other hand, if the existing flows of a given stream are such that water can be diverted and delivered to consumers in accordance with their demands on a dependable basis without seasonal or annual carry-over storage in a reservoir, then no new water development is involved, because the water is already available for consumption on a firm yield basis. Any project delivering such water would be a distribution project."

SENATOR CHIRSTENSEN: Do you see any conflict, Mr. Wright, between the duties imposed by the Burns-Porter Act, the minute it becomes law, proceeding with the construction of the Feather River Project, State Water facilities and the aqueducts, and the duty, or I mean, and the policy as it presently exists to develop new water projects by a local agency which are not going to be served by any of these transmission facilities?

MR. WRIGHT: No; I see no conflict, Senator.

SENATOR CHRISTENSEN: Isn't it true you do have two duties in that respect, both under the policies as set forth in the administrative action taken to date, and also to actually construct these, the State Water facilities?

MR. WRIGHT: Yes; I think we have a dual role.

SENATOR CHRISTENSEN: If those State Water facilities are so constructed and there is water produced at a reservoir, a terminal reservoir, would there then exist any conflict between the duties to serve local agencies not so served and local agencies that would be so served by a distribution from a terminal facility?

MR. WRIGHT: I don't really see any conflict, Senator.

SENATOR CHRISTENSEN: That is all. Thank you.

CHAIRMAN TEALE: I would like to ask a question or two. The first one concerns the problem of reasonable risk and inability to pay. I gather from your testimony that these agencies must prove that they are unable to raise any further funds from the normal channels?

MR. WRIGHT: Yes.

CHAIRMAN TEALE: In other words, they are broke from a practical standpoint?

MR. WRIGHT: Well, this would certainly be proof of inability to pay, but I would rather put it this way: that they cannot raise funds through normal financing channels at a rate which would make the project economically feasible. In other words, the interest rate through normal financing might be so high that it is marginal.

CHAIRMAN TEALE: Now, let me get down to particular cases: Suppose Podunk District wants to develop a new water supply and their bonding capacity and their ability to borrow from federal agencies and so forth amounts to maybe fifty per cent of the total amount required. Then where do you bring in

this matter of reasonable risk in determining whether or not the State can supplement their available funds, the amount necessary to construct the project, because they apparently have bonded themselves to capacity and have borrowed to capacity, and they still don't have enough money?

MR. WRIGHT: Well, we would have to, of course, take each case on an individual basis. If we felt that the growth trends and the acceleration of growth that would result from the development of this water facility would insure an adequate financial return to pay off the loan, and this has to be a matter of individual judgment in each case, we would be willing to consider risks that a bank or regular commercial-type agency, because of the responsibilities to its individual stockholders, cannot take. This would not, however, be a give-away program, nor would it be a program that would take excessive risk, but rather, it is the marginal case which the local or the commercial financing is reluctant to touch and which in our judgment seems a prudent, long-range risk that we would be interested in.

CHAIRMAN TEALE: Then you are going into the matter of desirability along with feasibility?

MR. WRIGHT: Yes; we would have to take that into consideration.

CHAIRMAN TEALE: If you take one of these groups that Senator Williams was discussing a moment ago, in which you accept bonds, we'll say, which for some reason you can't sell, the interest rate is too high or some other reason, what happens if the district defaults on their bonds?

MR. WRIGHT: I don't think we can roll up the project, Senator. I cannot speak as to what the legal liability of the district is and how we can collect, but possibly Mr. McGrath can answer that question for you.

CHAIRMAN TEALE: It seems to me, while we're waiting for Mr. McGrath, some of these are highly desirable projects which we anticipate will be able to pay off in the future, but could possibly be in a position where they couldn't meet the obligation of these bonds which they put up for it, which they put in the hands of the Water Department.

MR. WRIGHT: Well, I should perhaps point out it is quite possible an agency might come in today and their feasibility report might be so marginal or so negative that at this time they are not a prudent risk for the State to undertake. The same organization may come in a few years from now and have sufficiently developed so that it is a good risk from the State's point of view and still not be an adequate risk from a commercial point of view.

CHAIRMAN TEALE: Mr. McGrath?

MR. MC GRATH: Senator Teale, the bonds, if they are general obligation bonds, of course, they will be backed up by the district's taxing power, and if that fails, why we could sue the district on the basis of the promise in the bonds, but it might not prove of much value. Of course, the district has the power, in turn, to sell the land that the taxes are levied on, that were assessed, and obtain funds in that manner, so whether we just take the bonds or whether we just have a straight loan agreement without it, in taking the bonds we would still require that the taxing power of the taxing agency back up the loan, unless it should be decided that in certain instances, that the revenue is sufficiently strong in the picture to justify the taking of revenue bonds.

SENATOR WILLIAMS: Senator, wouldn't it be a case where the State would be asked to put more millions into the development so they could sell it to someone else?

CHAIRMAN TEALE: Sounds like Squaw Valley. I don't think that was such a good bargain. Senator Cobey, you have some questions?

SENATOR COBEY: Yes.

CHAIRMAN TEALE: I think you have the same questions I have, but I think I'll let you pursue it.

SENATOR COBEY: Well, I don't know. Actually, as I gather from this previous discussion, Mr. Wright, where there is some doubt about a district's legal power to borrow directly from the State, then the State will purchase its bonds and the State then will be in the same position as any other bondholder of that district; is that right?

MR. WRIGHT: Substantially.

SENATOR COBEY: Now, what sort of a staff does the California Water Commission have at the present time to review and carry out its review functions with respect to these loans and grants? I realize they are going to testify tomorrow, but I just wondered because you were talking about a second check here, a second check by the Water Commission?

MR. WRIGHT: In addition to the Commission itself, which is composed of various groups of individuals, there is an engineer and a secretary, administrative secretary to the Commission, as well as clerical and stenographic support.

SENATOR COBEY: So far they haven't got any professional assistance that is specifically earmarked for this type of a job, in view of these bills?

MR. WRIGHT: Well, of course, the engineer that is on the staff is available for this type of thing.

SENATOR COBEY: The engineering part of it. I was wondering about the economics and the financing?

MR. WRIGHT: No; I don't believe they have any permanent staff that is specialized in this field.

SENATOR COBEY: Now, as I gather from your answer to one of Senator Teale's questions, in effect, the State under its loan program and under this Davis-Grunsky Act will be taking the marginal risk, the risk that financially probably aren't justified, but which the State determines to be justified in terms of economic importance?

MR. WRIGHT: Yes; I would say we have no intention of taking poor risks which will fail, but we conceive this as having been developed to fill the gap between that loan which is easily handled on the commercial market and that loan which is so marginal the commercial market cannot touch it or can only touch it at an excessive interest rate that makes it unfeasible from a financial point of view.

SENATOR COBEY: This is not going to be like our School District Aid program where we make loans that eventually in large part would become grants?

MR. WRIGHT: We do not contemplate it at all in this fashion, Senator.

SENATOR COBEY: Now, one of the things that intrigues me about this particular statute, how do we get by on this statewide business? How do we define statewide interest? I note the definition with respect to recreational grants, and I do not see how it ties into the basic words involved, "statewide interest", because the three requirements are simply that, as I see that first one, that it be truly recreational in nature, and secondly, that it produce funds which are dispersed generally throughout the local community or area, and third, be operated on a non-discriminatory basis for the general public. Now, we jump from this matter of benefits dispersed generally throughout the local community or area to something of a statewide interest?

MR. WRIGHT: Senator, I cannot give you a better

definition of "statewide interest".

SENATOR COBEY: I always assumed with respect to recreation that the idea of statewide interest sprung from the fact that presumably the citizens of the State would go statewide in search of their recreational facilities; the recreational facilities would show it was used in a substantial or significant manner by those outside the area in which that is located, and then that recreational facility might have statewide interest, but I don't see any such limitation in the definition or the statement of policy that the Commission or Department has adopted.

MR. WRIGHT: I believe that you and I discussed this matter of defining "statewide interest" sometime ago, and did not reach a satisfactory conclusion at that time, and I regret that I cannot better define it.

SENATOR COBEY: I have no further questions of this witness.

CHAIRMAN TEALE: Mr. Wright, I would like to go back to page 9, third line from the top. You say "Nearly thirty projects throughout California requiring on the order of two hundred million dollars to construct, have been identified as water resource development that could, in the foreseeable future", and so forth.

MR. WRIGHT: Yes, sir?

CHAIRMAN TEALE: Do you have a list or compilation of those projects?

MR. WRIGHT: I do have that.

CHAIRMAN TEALE: We would like to have a copy of that list available to the committee.

MR. WRIGHT: I'll be glad to furnish it, sir.

CHAIRMAN TEALE: At this time, will you just indicate roughly or very briefly where those projects are and what type

of projects they are, that you would consider suitable?

MR. WRIGHT: Well, these are primarily water projects, as they must be, of course, under the terms of the act. They are located largely in the northern counties. I can run down this list, and I will furnish this to the committee.

CHAIRMAN TEALE: Will you pick some examples that are characteristic?

MR. WRIGHT: Yes. Allen Camp; Grenada Ranch in Siskiyou County; Ruth, in Trinity and Humboldt; Devils Corral in Lassen; Long Valley, in Lassen; Millvillito, in Shasta; Deer Creek Meadows, in Tehama; Paskenta, in Tehama; Jackson Meadows, in Nevada; Rollins, in Placer and Nevada; Wilson Valley, in Yolo and Lake; Upper Putah Creek, in Lake and Napa; Camp Far West, in Sutter; Stumpy Meadows, in El Dorado; Jackson Creek, in Amador; Spicer Meadow, in Alpine and Calaveras; Browns Meadows, in Tuolumne; Aqua Fria, in Mariposa; Windy Gap, in Madera; Pilarcitos, in San Mateo; Pescadero and Butano Point, in San Mateo; Glenwood, in Santa Cruz; Newell Creek, in Santa Cruz; San Antonio, in Monterey; Lopez, in San Luis Obispo; Paso Robles, in San Luis Obispo; Fallbrook-Lippincott, San Diego County.

CHAIRMAN TEALE: These are primarily storage projects?

MR. WRIGHT: That is right.

CHAIRMAN TEALE: Do you have any idea how they compare with your initial group of applications?

MR. WRIGHT: Well, these are -- Bob, you better answer that one, because some of these are not in the application stage. In fact, most of them are not. We have about ten which are in the application stage. The balance are not.

CHAIRMAN TEALE: Now, to go back to page 11 of your presentation, I would like to ask, apparently you consider some of your new irrigation distribution systems as the type of

thing that could be qualified under the local assistance program; is that a correct impression or is it not?

MR. WRIGHT: No, sir. I didn't intend to give you that impression. You asked us what the estimate of the cost of irrigation systems necessary to distribute water as a result of 1106 was. These are our figures for the areas in question, and as I say, we do not have similar figures at this time for the south and north bay and the Feather River service areas, but the big preponderance of the distribution systems are in the San Joaquin and southern California. We do not visualize these as being the sort of projects that would have the first claim on the Davis-Grunsky Act, because they are not developing new water. They are distributing water.

CHAIRMAN TEALE: They will be distributing from existing systems?

MR. WRIGHT: That is right, yes.

CHAIRMAN TEALE: One other question in regard to that: It came back to this matter of, I think it was rather early in your presentation, talking about ability to repay or feasibility. You discussed the cost of the water to the individual users, which would be within the -- I don't see it here, but it was within the ability of the person to use it economically, regarding receiving the water. Do you remember it?

MR. WRIGHT: I think I know the phrase you mentioned, and I'm looking for it too.

CHAIRMAN TEALE: I think it was on page 4.

SENATOR COBEY: May I ask a question?

CHAIRMAN TEALE: Yes; go ahead. Senator Cobey?

SENATOR COBEY: Incidentally, your policies, referring to page 4, do require that for a loan, I presume, you have to have a favorable benefit-cost ratio?

MR. WRIGHT: Yes; that's right.

SENATOR COBEY: That is without regard to secondary benefits?

MR. WRIGHT: That's right. Without regard to secondary benefits.

SENATOR COBEY: Yes. Pardon me.

CHAIRMAN TEALE: I don't find what I'm looking for anyway at the moment.

If 1106 passes, fifteen million dollars as it is presently set up in the Davis-Grunsky fund goes into the California water fund, or does that just disappear or what happens to it? I assume it is not obligated?

MR. WRIGHT: At the time 1106 passes, the balance remaining in the Davis-Grunsky account goes into the water fund, the unobligated balance, that is.

CHAIRMAN TEALE: Secondly, you made the statement that these funds are not available for feasibility studies?

MR. WRIGHT: That's right.

CHAIRMAN TEALE: Do you feel it desirable that some other source of funds be set up for loans for feasibility studies in these instances where these areas are having difficulty in making the studies?

MR. WRIGHT: Well, the Department feels that this is, of course, a legislative determination and you may wish to give consideration to this. We would point out that to the extent that these funds are dissipated in feasibility studies, they are not available again for actual loans, because this cannot be a revolving fund, so if they come from bond funds, this is subsequent to the passage of 1106, if they come from bond funds and they are repaid, assuming the law is so modified to do so, they then go back to repay the bonds and cannot be revolved, so to speak, and this is a matter for legislative consideration because a lot of money could be spent on

feasibility studies without producing any water.

CHAIRMAN TEALE: Well, do you feel it is more desirable that a loan fund be made available, that these agencies can make their feasibility studies themselves with loans, than it would be to have the Legislature direct the Department to make the feasibility studies for these areas? That is the practice we have been following in the past?

MR. WRIGHT: Yes, sir; I do, because I feel we are to some extent being asked to judge ourselves, or pass on our own work, and I think this is inappropriate.

CHAIRMAN TEALE: You feel you will be able to take a more impartial look at these projects if you are not involved in them personally?

MR. WRIGHT: I do. We would prefer it this way.

SENATOR COBEY: Mr. Chairman?

CHAIRMAN TEALE: Senator Cobey.

SENATOR COBEY: May we have Mr. McGrath come back up?

The legality of either loans or grants made under this legislation could be challenged by taxpayers, could it not?

MR. MC GRATH: I would believe that would be the case.

SENATOR COBEY: And taxpayers sue either for injunctive relief in the event the act had not been completed, all action or conduct had not been completed, or ask for repayment in the event that the illegal loan or grant had been made?

CHAIRMAN TEALE: Would you repeat that? Start at the beginning. I missed the first of it.

SENATOR COBEY: Well, the taxpayers suit could ask for either injunctive relief in the event that the action or conduct was not completed. In other words, to prevent further action along that line. For example, if the loan had not been approved or if the loan had been approved and made, it could then ask for reimbursement, could it not?

MR. MC GRATH: Senator, to be frank with you, I haven't considered this particular ramification. I haven't considered a taxpayers suit might be brought here.

SENATOR COBEY: What puzzles me, Mr. McGrath, I like your two-step procedure, where you first determine eligibility for a loan and then require a feasibility report in order to determine whether or not the loan will be approved, but as I read Section 12880, one of the conditions of eligibility is that these projects must have a statewide interest, and I'm a little puzzled about how you can determine their eligibility unless you can first determine whether there is or is not a statewide interest?

MR. MC GRATH: Well, Senator Cobey, this first step entails a finding of statewide interest. It entails findings on basic matters that the agency would like to know about before it goes to the expense of a formal application.

SENATOR COBEY: I think it is a good idea, but what I'm asking you, how do you make your eligibility finding if you can't tell me what are the criteria for determination of what constitutes "statewide interest"?

MR. MC GRATH: Well, we would, of course, have to be making that determination at that particular stage. They would be eligible on that particular basis as well as the other basic matters at that stage.

SENATOR COBEY: As I understand it, the Department has approved several loans and perhaps several grants here, according to Mr. Wright's statement, not approved, but has determined certain applicants are eligible, and this determination of eligibility requires a determination of their particular projects having statewide interest. Now, I would like to know how it was determined that these particular projects did have statewide interest?

MR. MC GRATH: I wouldn't be able to answer that, Senator.

SENATOR COBEY: Because if I were filing a taxpayers suit, I think that is the basis upon which I would proceed.

MR. WRIGHT: This is Mr. Eiland from our Department.

SENATOR COBEY: Yes, Mr. Eiland?

MR. WRIGHT: I think in this particular issue he has more familiarity than Mr. McGrath.

MR. ROBERT G. EILAND: Senator Cobey, I don't know if you have read our brochure which has the definition of statewide interest. I might say we have never been able to make a formula definition for statewide interest, and sometimes we thought the word "statewide" itself has some unfortunate connotations. Would you like me to read this definition?

SENATOR COBEY: Yes. I have it now here in front of me. Go ahead.

MR. EILAND: "Statewide interest. The Davis-Grunsky Act is designed to provide financial assistance to public agencies for the construction of water projects to meet local requirements in which there is a statewide interest. In determining whether a project has statewide interest, the Department of Water Resources will consider such factors as the extent to which the project is necessary to protect the health and safety of the residents of a community or area, provide protection from damage to public or private property, protect natural resources against loss and waste or foster their conservation and proper utilization, promote the economic development of undeveloped areas, and produce benefits which are dispersed generally throughout the community or area."

SENATOR COBEY: I have the same problem with that that I do with your statement of policy. With respect to recreational grants, I can't connect the phrase "statewide interest" to the interpretation that is given to it, and I don't see

there is anything in your statement that ties back to this matter of statewide interest.

MR. EILAND: Senator Cobey, let me say again, we cannot develop a formula type thing where we can measure this sort of thing, but let me say this, though: All of the applications that we have found eligible to date -- these are the preliminary applications.

SENATOR COBEY: Yes?

MR. EILAND: We have found every one of these has statewide interest.

SENATOR COBEY: I'm sure you have. I am trying to find out the basis upon which you have?

MR. EILAND: The general basis, Senator Cobey, speaking subjectively now, a beneficial water project that meets a water need and is in conformance with the California State Water Plan has statewide interest. We do not attach to statewide interest any measure as to size. Davis-Grunsky projects by law can be very small projects.

CHAIRMAN TEALE: I would like to make a comment on this: I think what constitutes statewide interest depends entirely on the area from which you are looking at the project. I think that we are going to have to assume that if 1106 passes in November, the aqueduct system and the conservation systems that go into that State Water Resource Development Plan has a statewide interest, and yet it is awfully hard for some of us up on the side of the mountains to see what our statewide interest is so far as it applies to us, but we have to assume it is there. It has to do with the total economy of the State, and I wonder if that is what you are trying to say, so far as local projects are concerned that affect the economy of the State?

MR. EILAND: I think it does, Senator Teale. I feel

there is just as much statewide interest in a beneficial project, especially as far as the local needs are concerned, as a big project. This is a matter of degree, but after all, the beneficiaries of the big project are just the sum of a lot of little areas that all add up.

SENATOR COBEY: Mr. Eiland, pardon me for interrupting you, there is this basic difference, is there not, under the Burns-Porter Act, incorporating the State Central Valley Act, the beneficiaries of the program are going to pay the entire cost thereof, including the interest. Under the program that we are discussing today, the first and number one grants, there will be no repayments whatsoever; secondly, we have a program of marginal loans in which there is some doubt as to whether there will be complete repayment, but it is a little more important that we have criteria in the second case, or reasonable reliability than we do in the first case when by law we are required to make full repayment?

MR. EILAND: Senator Cobey, by the Davis-Grunsky Act we are required also on these projects to have reasonable assurance of repayment, and we are not going to do it frivolously in this regard. Our analyses are quite thorough, if I might say so.

SENATOR COBEY: I don't doubt that, but I wonder, for example, if I recall, and correct me if I am wrong, you have made three million dollars in grants, or you have approved preliminarily three million dollars.

MR. EILAND: We have found eligibility.

MR. WRIGHT: We have found eligibility.

SENATOR COBEY: Yes. I mean, the preliminary determination of eligibility, three million dollars in grants?

MR. EILAND: That's correct. Whether all of these will get the money, we don't know yet.

SENATOR COBEY: Yes. I appreciate that.

CHAIRMAN TEALE: Pardon me for interrupting. Isn't it true if the reasonable assurances of repayment under the Burns-Porter Act don't develop, don't prove to be accurate, then doesn't the general taxpayer of the State and general credit of the State become responsible for those bonds?

MR. WRIGHT: Right.

SENATOR COBEY: That's right.

CHAIRMAN TEALE: Are there any further questions?

SENATOR COBEY: I don't think it is the same thing, because in one case we have assurance of repayment.

CHAIRMAN TEALE: Your dollar and my dollar. All the same dollar. Made by the mint. Just a question of whose pocket it comes out of.

Senator Slattery, do you have any questions?

SENATOR SLATTERY: Yes; I do.

Mr. Wright, on this question of statewide interest, who is going to make the decision as to whether a proposed project does have statewide interest?

MR. WRIGHT: The Department would make the finding initially, which would then be reviewed and approved, or not approved by the Water Commission.

SENATOR SLATTERY: I interpret from what was said here you have a rather liberal attitude on what does have statewide interest, as opposed to Senator Cobey's idea of what statewide interest is?

MR. WRIGHT: Perhaps I could illustrate it this way, and refer to the policy we have enumerated of developing basic new water supplies. We consider that development of a new water supply as against the diversion of an existing water supply adds an asset to the State as a whole, and I think that this is a test of statewide interest. Now, there will be situations

arise where distribution systems, because of hardship that may involve public health or safety, would also have an issue of statewide interest involved. That is to say, if there was a serious danger to the health of a community because of an inadequate or impure distribution system, I think the State as a whole has an interest in the welfare of a community, in the physical welfare of a community, but as a general test, this is an example, I think, of what a statewide interest can be and how it is recognized.

SENATOR SLATTERY: The Department's attitude on recreation, do they consider that a statewide interest?

MR. WRIGHT: The Department has taken the position on recreation, not only here, but in conjunction with other facilities in the Burns-Porter Act, that recreational facilities are built in for the benefit of all citizens of the State and should be a non-reimbursable cost because they are to be shared by all citizens.

SENATOR SLATTERY: I agree with you, Mr. Wright, in that and the Department. That is all.

CHAIRMAN TEALE: Senator Johnson? Questions?

SENATOR JOHNSON: No.

CHAIRMAN TEALE: One further question, Mr. Wright: To what extent does the Commission have to call on the Water Department personnel to exercise their responsibilities with respect to this particular problem? Do they draw the personnel from the Water Department personnel?

MR. WRIGHT: They have, as I say, two permanent staff members, plus stenographic help, permanently assigned, and at any time that this is not adequate, they may draw upon the Department for additional service.

CHAIRMAN TEALE: Do you know if they have done that to date or have been required to do it?

MR. WRIGHT: Yes. In certain instances the Department has provided them with additional help.

CHAIRMAN TEALE: Another question: If the Commission draws on Department personnel to do their part of the checking on this, to what extent would that same personnel be used by the Department for the same purpose, from the Water Department standpoint?

MR. WRIGHT: I don't think at all, sir. The group that -- well, I won't say not at all, because frequently the Commission will ask us for information and ask our own people who are specifically assigned to the Davis-Grunsky program for information, but for what I would call staff service, I am not aware that the same people have served the Commission that are serving us.

MR. EILAND: That's correct.

CHAIRMAN TEALE: What I'm trying to get at, has there been any thought given to the problem that might arise, should the same personnel work on taking over these applications and passing on them for both the Commission and the Water Department? Is there a desirability of maybe separating them?

MR. WRIGHT: From the technical point of view, the Commission has a quite competent engineer in Mr. Gleason, who is full time there, and who is there to provide them with the technical review for the Commission, and they have Mr. Carah, who handles all of the administrative details that support their activity. Now, to the extent that they may need other help, this is provided on a service basis, but from a technical decision point of view, I would consider that Mr. Gleason is in charge of the recommendations that would be made, and he would not be bound by what our people say if he does not choose to do so.

CHAIRMAN TEALE: Any further questions before we recess

for lunch? Do you have any?

SENATOR COBEY: No.

CHAIRMAN TEALE: Fine. The committee will recess until 1:30. Thank you, Mr. Wright.

(The Committee was thereupon recessed for the noon adjournment at 12:07 o'clock, p.m.)

THURSDAY, JUNE 23, 1960,

1:30 O'CLOCK P.M.

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CHAIRMAN TEALE: The meeting will come to order.

The first witness this afternoon is Mr. Joseph E. Patten, Consulting Engineer, who is representing the Georgetown Divide Public Utility District and the Tehama County Flood Control and Water Conservation District. Mr. Patten?

MR. JOSEPH E. PATTEN: Where would you like these copies, Mr. Chairman?

MR. LAPHAM: I'll take them. Do you have one for yourself?

MR. PATTEN: I have a prepared statement, Senator Teale, that the staff member is passing out.

My name is Joseph E. Patten. I am a registered civil engineer, associated with the firm of Clair A. Hill & Associates, Redding, California. The firm presently represents two agencies interested in this legislation which have, or contemplate, the application for either a loan or grant under the Davis-Grunsky Act. These agencies are the Georgetown Divide Public Utility District and El Dorado County, and the Tehama County Flood Control and Water Conservation District. Mr. Hill also is special consultant on water to Shasta County, and they have been, and are, quite interested in the program also.

I think the people of northern California through representatives of the various counties, have throughout the years supported legislation leading to this program and the Davis-Grunsky Act. There has always been a definite need to fill the gap wherein small local projects could be planned and developed by local agencies, with financial assistance from the State.

As you know, on the Federal side there is Public Law 864, the Small Projects Act. The program under this act is well under way, and has hastened the development of many small projects which

otherwise might have been delayed for a number of years.

There is a need for such a program, as is well demonstrated by the number of projects contained in Bulletin 3, the California Water Plan, and labeled in the legend as "development for local needs". These are listed on Bulletin 3, and the total, as near as I can count, is about 35 reservoirs exclusive of the American River. It is my understanding -- I'm talking now about the area north of the Delta -- that Director Banks used the estimated cost of all, or most of these projects in the selection of the \$130,000,000, as contained in the Burns-Porter Act. I understand there was some discussion of this this morning which I did not hear all parts of. These of course are the projects envisioned by the state engineers in Bulletin 3 as the guide to future development, and do not indicate necessarily final development of the area. By this, I mean that many of the indicated projects incorporate storage sufficient for export as well as for local use, and there are many, many, smaller projects which as a matter of fact, were not within the scope of Bulletin 3 but would qualify under the program. These are scattered throughout the foothills of the Sacramento River watershed, and are not necessarily adjacent to other proposed major projects, such as CVP, or even large features of the California Water Plan. They, therefore, depend largely upon such a program as this.

Our present activities, and immediate interest in the Davis-Grunsky Act are in regard to the above mentioned two agencies. I will briefly describe our activities in their regard, and the relationship of their respective projects to the legislation.

The Georgetown Divide Public Utility District in March, 1958, filed an application with the U. S. Bureau of Reclamation for a loan under Public Law 984, for the financing of their

proposed project. This project is to consist of a 165-foot earth and rock fill dam at the Stumpy Meadows site, creating a reservoir of 20,000 acre-foot capacity. The conveyance system will consist of about ten miles of pipe, ditch and tunnel. The storage facilities are located on Pilot Creek and the water is transported over the Georgetown Divide into the area generally south and west of Georgetown.

Contracts have been awarded for the storage and main conveyance facilities in the amount of \$3,000,00, or thereabouts. The present estimated total cost of the project including right-of-way and distribution improvements is about \$4.7 million. The district's present loan is for approximately \$3,877,670, and appears to be sufficient to cover contract costs for the construction of the main storage and conveyance facilities. It is not applicable to cover the extension of their distribution facilities nor right-of-way on any of the facilities. These costs will constitute the district's own contribution to the construction of the overall project.

The district does not at the present anticipate applying to the Department of Water Resources for a loan under the Davis-Grunsky Act. However, they are vitally interested in, and have made preliminary application to determine eligibility in regard to a grant. I feel certain the project qualifies. As you know the district is obligated to pay out of its own funds for all right-of-way associated with the project under the Public Law 984 Act. These costs are substantially higher than originally estimated, and such a grant would go a long way toward relieving some of the district's financial problems.

As to the recreation potential of the area, I don't think I need discuss this in great detail. There has been substantial demand, as you know, for access to and recreation on various lakes throughout the lower Sierra Range. Stumpy Meadows

Reservoir under construction by Georgetown is no exception. It will create a lake of over 300 acres, surrounded by timber for the most part, a substantial portion of which is owned by the U. S. Forest Service. In addition, the district was obligated to purchase substantial land adjacent to the damsite because that site was owned by the Pacific Gas and Electric Company and they had to purchase the whole piece. These lands are strategically located as regard recreation use, and can be improved by the district. In addition, the major borrow area for construction of the dam is located at an ideal spot on the edge of the reservoir and can probably be left in such a shape as to provide for boat launching.

I might add that if the fish planting program that has been initiated at the Ice House Reservoir is successful, we anticipate that the same type of fishery might be developed at Stumpy Meadows. The results up there may prove this out.

The people of Tehama County, and the people on land along the Sacramento River downstream therefrom have been vitally interested in the proposed Paskenta Dam for a number of years. I'm sure you've heard the name before. It would be located on Thomes Creek in the southwestern part of Tehama County. This could provide in some measure flood control protection not only to areas adjacent to Thomes Creek, but also along the Sacramento River.

The Tehama County Flood Control and Water Conservation District, operating under a special act of the Legislature passed during the 1957 session has authorized us to proceed with a feasibility report, and possible loan application to the Bureau under Public Law 984. The final direction in which the district will seek financing is not known at the present time and will not be known until the feasibility studies have been completed.

The proposed Paskenta Project anticipates a storage reservoir of about 60,000 acre feet capacity at the Paskenta site, created by a dam about 180 feet high. Associated with it will be diversion facilities on the lower reaches of Thomas Creek and conveyance canals to distribute the water to an adjacent irrigable acreage of about 10 to 15,000 acres.

As you may know the Paskenta Project is one which the State at the present time is vitally interested in as related to Middle Fork Eel Imports and the development of the whole west side of the Sacramento Valley. I might comment that the original draft of this had "South Fork", and reading it this morning on the plane coming down, it dawned on me that we are dealing with the Middle Fork and not South Fork. The present thinking in the State is somewhat different from that portrayed in Bulletin 3, and envisions a very large reservoir at the Newville site for the desperately needed long-time carryover storage. It is for this reason that the district anticipates working very closely with the planning engineers of the State and as a matter of fact, have already discussed in some detail their interest in the project.

As I stated above, there is a chance for some flood control benefits from this reservoir. In addition, it has been stated by some that if adequate flows could be provided in the lower reaches of Thomas Creek, a substantial anadromous fishery could be developed. It is my understanding that the present fishery is very minor in that the flows there are very erratic. This was very well demonstrated by the runoff of last winter at which time no flows reached the Sacramento River until well into February. This, of course, is well beyond the normal spawning season of the Sacramento River salmon.

I mention these because the district is interested in the development of this project to its fullest and most economical

extent for a local irrigation project, but may not be able to finance portions of it as related to possible fishery enhancement or flood control provided to the Sacramento River. Since the State is vitally interested in this project, we anticipate this may very well be the "guinea pig" project wherein State and local district cooperation may be accomplished under the Davis-Grunsky Act to realize development of the reservoir to its full capacity. By that I mean that the district anticipates constructing a dam of a size which I am quite sure will be substantially less than what the State will require in the ultimate scheme. The Davis-Grunsky Act was designed in part to handle such a program, and the State could very well through authorization by the Legislature permit the full development of the storage site with State participation to the extent of increase in cost over and above what would be required for local development.

If the State were to cooperate in such a venture as suggested, the additional capacity over and above that required to furnish the water for the local area could be used during the interim to prove out the possible fishery enhancement of Thomes Creek and also provide the flood control on both the Sacramento River and lower Thomes Creek.

We are looking forward to this possibility and indulge your assistance at the appropriate time in working out legislation which will permit such cooperation. As I have said before, we do not have our feasibility report prepared as yet, but when we do have we will be in touch with you in this regard. I might say that Assemblyman Lowery has been vitally interested in this project and I am sure will sponsor legislation when the course of action is well defined.

Now, I have spoken pretty directly toward a couple of projects we are working on and are vitally interested in. We

would also like to make some general comments regarding the act itself. I might preface these comments by stating that it appears a little premature to work out detailed amendments to the acts until such time as we know what is going to happen to the Burns-Porter Act in the November election. There are a number of things however which the Legislative Committee can be working on in the meantime which may lead to amendments to the act at the next session.

It is quite obvious from the applications which have been made thus far under the act, that unless some total limit is placed on grants, the funds will dissipate quite rapidly for this purpose alone. We recognize that there are no restrictions for grants in regard to the district's ability to finance and therefore can visualize the grants absorbing the available funds quite rapidly.

We are in accord with the present limit of grants under the act of \$300,000 perproject without special authorization from the legislation. The reason we support this is that though it may be proportionally inadequate to a large project, the program was designed for smaller projects, and with a limit as such the smaller projects have some favor.

It is understood that grants are presently limited to costs associated with the dam and reservoir itself. For good reason I think, the act was designed to avoid any conflict with other programs for "on site" developments, such as might be provided by funds from the Wildlife Conservation Board. We do feel, however, that this field should be broadened to purchase lands adjacent to the reservoir which may be necessary to the full use of the recreation potential of the area. The purchase of such lands are an additional burden on the district in many cases beyond which they can afford. I might comment that in regard to Georgetown, it may not be necessary that the purchase

additional lands in view of what they have had to buy for the dam and the fact that there is forest service property adjacent to the lake. However, I'm not sure but I do not think that there are any public lands adjacent to the proposed reservoir in Thomas Creek and that such a problem would arise in this case.

Our principle concern regarding the loan feature of the act is the clarification of the application of the act to source development, and the geographic distribution of monies available thereunder. We have always understood that this program was designed essentially for Northern California, for the so-called area-of-origin, wherein there is a potential of many small projects to be developed by local interest, but which may require State assistance for their realization. I think that the Commission has thus far taken a sound position in the development of the regulations pertaining to the act which suggest this.

We would like, however, to see this clarified in the act. The application of this act to distribution systems in the southern part of California obviously will absorb all of the funds in a matter of a very, very, short time and this was never the intent of the legislation.

The present \$15,000,000 fund is set up on a revolving fund basis. This will not be true as regards the \$130,000,00, if the Burns-Porter Act passes next November. I don't know just what has to be done to correct this, but we feel that the monies available under the program following passage of 1106 should be on a revolving fund basis. It is our understanding that the passage of 1106 will eliminate this feature.

As to priority in granting loans under this act, we strongly suggest that if and when it becomes necessary to set up such priorities that first consideration be given to areas of low assessed value. After all, this act was designed for

districts which are not in a strong financial position, and I assume the act is designed to promote the development of assessed values throughout the State where they are low.

In summary, we wish to recommend the following to your committee for consideration:

1. Clarification of the act, in accordance with the original intent regarding limitation of the applicability of the act to (a) source development as distinguished from distribution. (b) Northern California.

2. Make no hasty suggested changes in the act until we find out what happens to the Burns-Porter Act.

3. Give some possible consideration to limiting grants as related to ability to finance.

We probably have not covered all phases of the problems associated with the Davis-Grunsky Act. This is a new program and I am sure you recognize that. As it is applied, problems will be encountered, but I am confident they will be overcome. We certainly will be very happy to cooperate with the Department, the State Legislature and Legislative Committees in modifying this program so that it fulfills its original intent and realizes the greatest possible benefit to the State of California.

Thank you very much for the opportunity to appear before your committee and make our presentation.

CHAIRMAN TEALE: Thank you very much, Mr. Patten. I am a little bit interested, and I would like to have your impression as an engineer -- I presume you are an engineer?

MR. PATTEN: Yes.

CHAIRMAN TEALE: How would you define "statewide interest"? I presume you have heard the discussion this morning?

MR. PATTEN: Yes. I arrived here just in time to hear that

part of it and it was kicked around during the lunch hour and I was asked that question. That is a pretty tough one. I think we could tie this into the priority that we recommend here, in that this program is designed to assist the broadening of assessed value in areas where it is now low. Such developments and broadening of assessed value, I think, is in the State's interest.

CHAIRMAN TEALE: Now, back on page 7 in your discussion here, you discussed the reservoir on Thomas Creek. You stated there you felt there was a State interest which would require a larger reservoir than the local district would be willing to or would require for their own usage, and I think there you can demonstrate the statewide interest in addition to the local interest because of the storage of surplus water supplies for use someplace else?

MR. PATTEN: This is a different aspect of statewide interest. This is related to the cooperation with the State in regard to a reservoir which may have features designed for not only local use, but for export or flood control elsewhere. As I understand the State planning at the moment, they contemplate Paskenta as being somewhat of a key to a major westside development of the Sacramento Valley, incorporated with some imports, and to tie in with that system as they envision it now, and they are certainly not firm in their plans, but as they see it now, it should be developed to a certain level. I think the level is, oh, from above elevation nine sixty, and somewhere between there and one thousand, and we are talking now about an elevation maybe of nineteen forty, something like that, so it indicates that it is less than what the State is talking about. Now, if this is necessary to tie in with their future scheme, then we think there is an opportunity here to employ that portion of the act wherein the State can cooperate

with the local district in realizing full development of the unit here involved on Thomes Creek.

CHAIRMAN TEALE: When some of us who are sitting here today sat on conferences in which we formulated the provisions of 1106, which set up the one hundred thirty million dollar fund for local assistance, it was our thought at that time, and also the thought of the Department, I believe, that it was desirable to assist local agencies in projects that would also furnish water above and beyond what they needed for their immediate usage, and that it could be available for export into the statewide water program. Has your district up there entered into any discussions with the Water Department, or has the Water Department made any overtures toward the district regarding the advisability of such development?

MR. PATTEN: We have talked with the Department. The Department, as a matter of fact, representatives of the Department have appeared before the Board of Directors of the Tehama County Flood Control and Water Conservation District and has expressed their views with regards with the State's position on Thomes Creek as related to the project, and I think in essence they will review the proposal made by the district when it is made, and will evaluate the proposal as related to their plans at the time, and I say, "their plans", I mean the coordinated system, and whether or not a program could be worked out whereby cooperation will be realized. I don't know, but they certainly have expressed all the cooperation they can offer.

CHAIRMAN TEALE: Have they suggested any use of State funds to implement the bigger project?

MR. PATTEN: They haven't committed themselves yet. They won't until they see our plan, that is, the district's plan, what the additional cost might be, and what the overall

project will accomplish for them. I think things are a little nebulous at the moment. I simply want to be absolutely sure and have this committee understand this is one project wherein there is a good opportunity for this cooperation to be tried.

CHAIRMAN TEALE: I would like to introduce another man who is not a member of this committee, but who has his name tied to this bill we are discussing today. Senator Grunsky from Stanislaus County.

SENATOR DONALD L. GRUNSKY: Thank you, sir.

CHAIRMAN TEALE: We are sorry your partner couldn't be here today. She's in Los Angeles.

Are there any further questions of Mr. Patten? Senator Johnson? Senator Williams? Senator Slattery?

SENATOR SLATTERY: No.

CHAIRMAN TEALE: Senator Murdy? Any questions?

(There was no response.)

CHAIRMAN TEALE: Thank you very much.

MR. PATTEN: Thank you.

SENATOR WILLIAMS: Mr. Chairman, I would like to ask a question about these two charts. Maybe I should ask Lloyd. This says "local projects that might require State financial assistance in the near future." I think Mr. Wright had these; is that right?

MR. LAPHAM: Those came from Mr. Wright.

SENATOR WILLIAMS: Those over there, is that from the Water Commission?

MR. LAPHAM: Those are from the Department of Water Resources. Those are people who have actually applied for grants and loans.

CHAIRMAN TEALE: Maybe I can answer your question. This is a list they suggested last year as projects which might require assistance under this one hundred thirty million dollar

program. This was an illustration of what type of projects, the possible projects that might require assistance, and the second sheet, the thermofax sheets are the ones who have actually applied for loans and indicated how much, and also the grants.

SENATOR WILLIAMS: Then it says "request for preliminary determination of eligibility for financial assistance", and in some cases they said the loan would be granted, or they would give them some money anyway, according to this thing here; is that right? "Found not eligible for loan under inability to finance requirement", turned them down on a four million dollar loan, and then found them eligible for an out and out grant of three hundred thousand dollars.

MR. LAPHAM: The standards for the grant and loan are, of course, different.

SENATOR WILLIAMS: Is this limited to three hundred thousand dollars, those loans?

MR. LAPHAM: The grants.

SENATOR WILLIAMS: The grants, I mean? Well, let's take --

CHAIRMAN TEALE: Under the provisions of the act they are.

SENATOR WILLIAMS: Here is one, City of Santa Cruz, four hundred seventy thousand, found eligible for grant.

CHAIRMAN TEALE: Any amount over three hundred thousand has to be approved by the Legislature.

MR. LAPHAM: Mr. Chairman, Mr. Eiland of the Department is still here.

CHAIRMAN TEALE: Let's get him up here and have him answer.

SENATOR WILLIAMS: I would like to find out too, is this something that has actually been turned into the Department?

MR. LAPHAM: No, sir. That is just their list.

CHAIRMAN TEALE: This came from the Department last year when we talked about it.

SENATOR WILLIAMS: That is what I thought. These aren't applications, but something that might come up in the future; is that correct?

MR. EILAND: That's correct.

SENATOR WILLIAMS: No applications have been made on these?

MR. EILAND: Some of them have.

SENATOR WILLIAMS: Some of them have?

MR. EILAND: Some of them have.

MR. LAPHAM: I believe there is only one --

MR. EILAND: About nine.

SENATOR WILLIAMS: Well, this Tehama County, the last witness here mentioned Tehama County. Stumpy Meadows and Paskenta Creek, I guess it is, and haven't they applied for those?

MR. EILAND: No, sir.

SENATOR WILLIAMS: Then I misunderstood the witness, I guess.

CHAIRMAN TEALE: He thought they might want to make application in the future.

SENATOR WILLIAMS: In other words, they are very likely to come about. In the eyes of the Department, these are very apt to come up in the not too distant future; is that right?

MR. EILAND: We would expect they might, yes.

SENATOR WILLIAMS: If they found their name on this list, you would bet they would be in if they were going to get a grant.

MR. LAPHAM: I think there is a further difference between the two lists. The one prepared by the Department and presented today is generally in line with their idea of a new water supply project, whereas the applications that actually have been filed are for everything eligible under the act.

Would that be correct, Mr. Eiland?

MR. EILAND: That is correct, Mr. Lapham.

SENATOR WILLIAMS: Let me ask one more question, Mr. Chairman, of the witness: If these should come up, in other words, they haven't yet, but if they should, would you take into consideration the cost per acre-foot in whether or not they would receive the loan or grant? Here's the project that is going to develop twenty thousand acre-feet new yield, costing seven million dollars, or about three hundred fifty dollars an acre-foot, and then here's thirty-five thousand acre-feet, estimated total cost of five million dollars, which would reduce the cost per acre-foot considerably; and then here's another one here of eight thousand acre-feet for a million dollars, and one for eleven thousand acre-feet for a million dollars. What I'm getting at, would you take those on a basis of what is the best deal per acre-foot or what?

MR. EILAND: Well, Senator Williams, each project would have to show economic justification on its own merits, and so to that extent, we certainly would. Also, the local people would need to be willing and able to undertake a cost of that type.

SENATOR WILLIAMS: What I'm getting at, for the development of the water there is such a wide difference there, one million dollars to develop six thousand acre-feet, or one million dollars to develop eleven thousand acre-feet. Now, you can see the difference that there would be.

MR. EILAND: Yes, sir.

SENATOR WILLIAMS: Now, the one that they are going to develop six thousand acre-feet is probably just as vital to those people in Upper Putah Creek as the one up here in South Cow Creek in Shasta County where they are going to develop eleven thousand acre-feet for the same price, it would be just as vital?

MR. EILAND: Yes; it would.

SENATOR WILLIAMS: What I'm getting at, do you people take into consideration that part of it or just the fact they do have the ability to pay it?

MR. EILAND: I think we would take into consideration both parts, Senator. I believe, though, that the only real problem it would give us would be in cases where in the event that we had to make a choice on how to spend the available funds, I don't know what procedure would be followed.

SENATOR WILLIAMS: One more question, Mr. Chairman: In compiling this list, have you had any requests from these areas, these counties, to add their names to the list, or is this just one on the Department's own initiative?

MR. EILAND: No, sir. We have had no request I know of from the counties.

SENATOR WILLIAMS: You just think these are worthwhile projects on the face of it without going into it too deeply, and that probably these would come up in the not too distant future?

MR. EILAND: They are primarily, Senator Williams, physical possibilities. How many of them the local people would feel they would want to undertake is something else. How many would be anywhere near what the local people could pay is something else, so it is just when and how many of them would come in the form of applications. We really don't know, but these are physical possibilities for developing water.

SENATOR WILLIAMS: Are they physical possibilities under the existing law as it is today?

MR. EILAND: Yes.

SENATOR WILLIAMS: Then the minute that we change the law, they might not be physical possibilities; is that right?

MR. EILAND: That would depend on the change.

SENATOR WILLIAMS: Yes. What I'm getting at is you already have instilled in these people the desire that they might get these loans and benefits, and then if the law happened to be changed they might be ruled out?

MR. EILAND: That is possible, yes, sir.

SENATOR WILLIAMS: All right.

CHAIRMAN TEALE: Gentlemen of the committee, some of the boy's stater's would like to take some pictures. Any objections?

(No objection was voiced.)

CHAIRMAN TEALE: Thank you very much. Stick around. We may have some more questions for you.

MR. EILAND: I'll be here.

CHAIRMAN TEALE: The next witness we have is Mr. E. G. Babcock and L. W. Kramer, and they are the President and Vice President of the Big Valley Irrigation District. This is on the attempt to finance the Allen Camp Project up in Senator Arnold's district.

We have with us Mr. Kramer who will speak for the Big Valley Irrigation District. Mr. Kramer, will you proceed?

MR. L. W. KRAMER: Thank you.

Senate Fact Finding Committee on Water: Gentlemen:

This will reply to your letter of June 7, 1960, in which you requested that we submit opinions and answers to certain questions pertaining to state assistance for local projects.

The following is a list of our answers to your "questions - for local witnesses."

1. a Our project as presently envisioned would have a firm yield of 58,000 acre-feet. 25,600 a.f. would be a re-regulation of an existing supply and 32,500 a.f. of new water would be developed.

b The Allen Camp project will have sufficient yield to irrigate approximately 27,000 acres. With full development of

the local water supply it would be possible to irrigate about 43,000 acres out of a total irrigable acreage of 55,000 acres.

c Other nearby agencies are nonexistent.

2. We retained a private consultant from a reputable bonding firm who advised us that we have inadequate bonding capacity to finance this project.

3. It is our contention that it is an unnecessary and expensive step to offer bonds if it has been determined by some other method that they have little or no chance of sale.

4. We do not agree with the Department's criteria for determining eligibility.

5. We have at this time set no debt limit and have no outstanding bonds.

6. It is our opinion that in determining eligibility and priority for projects that first consideration be given to those projects that would develop a new water supply in keeping with statewide interest.

7. Yes.

8. In addition to the Allen Camp project, with an initial first step cost of approximately \$9,000,000 we anticipate that the Round Valley project may become feasible within the next twenty years. It has a present estimated cost of \$8,500,000. A large percentage of this cost is for highway and public utility relocation.

The following is in answer to your questions regarding grants for development of projects by local agencies.

The present limitation of state grants for recreational development such as ours should be expanded to include all costs of recreational facilities including some relief for highway relocation and acquisition of such lands as necessary to provide access to these facilities.

It would be desirable from the district's point of view

that instead of it being necessary to issue bonds in order to obtain Davis-Grunsky funds that we could instead enter into a repayment contract with the State which could provide more flexibility in repayment such as a development period.

We wish to thank you for this opportunity of presenting our views on this subject and hope that this committee will meet with success in the solution of the many and complex problems arising from the development of our State's waters.

CHAIRMAN TEALE: I have two or three questions I would like to ask regarding this.

I see by the list the Water Department gave us and from your own statement, that you anticipate developing about 58,000 acre-feet of new water?

MR. KRAMER: That's right.

CHAIRMAN TEALE: This primarily would be for irrigation, or would it be irrigation-domestic or what?

MR. KRAMER: Irrigation.

CHAIRMAN TEALE: Irrigation primarily? It will cost you about nine million dollars. You say you have no outstanding bonds at the present time? What is your bonding capacity? Do you have any idea?

MR. KRAMER: No; I don't.

CHAIRMAN TEALE: Do you have any idea what the assessed valuation of the area to be served would be?

MR. KRAMER: I don't have those figures with me.

CHAIRMAN TEALE: You don't know? But your consultant, your economic consultant has advised you you don't have sufficient bonding capacity to handle the whole project?

MR. KRAMER: That's right.

CHAIRMAN TEALE: Have you discussed with any other agencies financing of it?

MR. KRAMER: No; we haven't.

CHAIRMAN TEALE: Say the federal government?

MR. KRAMER: No; we haven't.

CHAIRMAN TEALE: Or Bureau of Reclamation?

MR. KRAMER: No.

CHAIRMAN TEALE: Now, it is your opinion, then, you should be able to negotiate with the State for a loan for the entire amount?

MR. KRAMER: Well --

CHAIRMAN TEALE: That is what you would like?

MR. KRAMER: We would like to, yes.

CHAIRMAN TEALE: Of course, you take nine million dollars out of the fifteen, and it doesn't leave anybody else any, where if you use your own capacity, maybe it would leave a little. Under question four you said "We do not agree with the Department's criteria for determining eligibility." Would you elaborate on that a little bit? I presume that is in regard to financial ability? I'll read you question four as you got it. "Do you agree with the Department's criteria for eligibility which sets at twenty-five per cent of the assessed valuation the direct and overlapping debt within the agency boundaries?"

MR. KRAMER: Well, we think it should be a little broader in scope.

CHAIRMAN TEALE: Any questions by the committee?

SENATOR WILLIAMS: I have a few questions.

CHAIRMAN TEALE: Senator Williams.

SENATOR WILLIAMS: Question number two, "We retained a private consultant from a reputable bonding firm who advised us that we have inadequate bonding capacity to finance this project." Would you care to tell us who the consultant was or who the representative was?

MR. KRAMER: It was some bonding company in San Francisco.

SENATOR WILLIAMS: But you don't know who it is?

MR. KRAMER: He met with us.

SENATOR WILLIAMS: I mean, you don't know his name or the bonding company?

MR. KRAMER: No; I don't.

SENATOR WILLIAMS: Are you the Chairman of the Big Valley Irrigation District?

MR. KRAMER: Vice President.

SENATOR WILLIAMS: Vice President? And you don't know who the man was or the firm he represented?

MR. KRAMER: I wasn't there at that meeting.

SENATOR WILLIAMS: One other question: I'm looking at the third from the last paragraph on page two, "The present limitation of State grants for recreational development, such as ours, should be expanded to include all costs of recreational facilities." What recreational developments do you have in mind in your area?

MR. KRAMER: Boating.

SENATOR WILLIAMS: Boating?

MR. KRAMER: Could be.

SENATOR WILLIAMS: Is there a lake in this area near Bieber?

MR. KRAMER: There would be.

SENATOR WILLIAMS: That's where your headquarters are, at Bieber?

MR. KRAMER: That's right.

SENATOR WILLIAMS: Is that near Klamath, Lower Klamath or Tule Lake?

MR. KRAMER: It is south of that area.

SENATOR WILLIAMS: Is there a lake around that area?

MR. KRAMER: Several, yes.

SENATOR WILLIAMS: Several lakes? What other recreational

developments did you have in mind?

MR. KRAMER: Hunting, fishing.

SENATOR WILLIAMS: Now, according to your statement here, you feel that the State should change their present limitations on grants for recreational development, and I assume that you infer here the State should assume all costs of that or any facilities; is that right?

MR. KRAMER: That's right.

SENATOR WILLIAMS: Is that what you mean?

MR. KRAMER: That's right.

SENATOR WILLIAMS: Then that the district shouldn't have to reimburse the State at all?

MR. KRAMER: That's right.

SENATOR WILLIAMS: Now, the question I want to ask you is this: The State has a certain sum of money, we'll say, for developing water. Do you think, then, that should be done before your district would receive money for recreational development?

MR. KRAMER: Primarily in our area, we would like to see the water developed and then the recreational end of it come afterward.

SENATOR WILLIAMS: But you feel that if other areas need the water development for agriculture, we'll say, then they should go ahead and have a prior right over recreation?

MR. KRAMER: In that area, yes.

SENATOR WILLIAMS: That is all I have, Mr. Chairman.

CHAIRMAN TEALE: Further questions? Senator Slattery?
Senator Johnson?

SENATOR JOHNSON: No.

CHAIRMAN TEALE: Senator Christensen? Senator Grunsky, do you have any questions?

SENATOR GRUNSKY: No.

CHAIRMAN TEALE: Senator Murdy?

SENATOR MURDY: I have no questions.

CHAIRMAN TEALE: Thank you very much.

MR. KRAMER: I thank you, gentlemen.

CHAIRMAN TEALE: I might say this is the first time that our consultants ever wrote up a program we have finished before five o'clock in the evening. We are through our witnesses for the day, so we'll see you again at ten a.m. in the morning. Thank you very much.

(The Committee thereupon recessed for the day at 2:20 o'clock, p.m.)

FRIDAY, JUNE 24, 1960, 10 O'CLOCK, A. M.

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CHAIRMAN TEALE: Mr. Carr will be the first witness.

The meeting will please come to order. We will resume this hearing on the Davis-Grunsky problem this morning, and I would like to introduce two more men sitting with the Committee, Senator George Miller and Senator Rodda, Sacramento County.

This morning we'll hear from the Water Commission, California Water Commission and I would call first on Mr. James Carr, the Chairman, of the California Water Commission.

MR. CARR: Mr. Chairman, members of the Committee, my name is James P. Carr. I am Chairman of the California Water Commission. I have with me today, Mr. George C. Fleharty and King come to the table with me.

CHAIRMAN TEALE: That is satisfactory, Mr. Carr.

MR. CARR: Mr. Chairman, as Chairman of the Commission let me first say that we are very pleased that you have called this meeting to look into the Davis-Grunsky Act, and the administration, because the members of the administration have done an awful lot of work on this subject in the last few months, and we are convinced that there are some places in the Act where we can improve the administration of it or at least reach clarification as to what the Legislature intended, perhaps there will be places where you will want to define by legislation rather than letting the Commission define what the act really means. Another point that I would like to make before I introduce Mr. Fleharty as Chairman of our Sub-committee who will make a statement for us, yesterday there was a considerable discussion about statewide interest. I think in fact we are talking about public interest and although there seems to be some comment about how your statewide interest and whether the Department or the Commission had

a formula for it, we are really saying that any water development in California is in the public interest and we are assuming water development regardless of the size to be in the public interest. It is like the story about all whiskey is good and some is better than others. We are saying here that all water development is good and in the public interest and some projects may be better than others.

SENATOR COBEY: I would like to comment, Mr. Carr, not in regard to the whiskey but the phrase of statewide interest is legally language of limitation, and if you try to equate that in meaning with the public interest it seems to me that you will remove the language of limitation, public interest roughly means for the public purpose. We all know public moneys must be spent for a public purpose, and also as you are no doubt aware, this is a delegation of legislative power, and unless legislative power is delegated with ascertainable standards the delegation is unconstitutional and that is why I would object to the transposition that you propose, of saying that statewide interest merely means public interest.

MR. CARR: Senator Cobey, I am attempting to say what in general the Department, at least, the Commission have adopted in total, adopting these rules and regulations. I thought that to be not beating around the bush about exactly ^{what was} done and that is assume that all projects have statewide interest. I say maybe we are talking about public interest in the absence of some definition as how we measure statewide interests. This we thought was the best thing to do. That is why I wanted to throw it on the table and tell you that is what we are doing, so if the Committee members after they listen to what the Commission has done want to take legislative remedies to change this that will be fine with us, but in absence of formula we feel we had to do it this way.

SENATOR COBEY: I respect your candor but I am not required to concur.

MR. CARR: Thank you Senator Cobey for at least half of it.

Senator Chairman, we found out as we did the work of the Water Commission in the last several months, particularly because of responsibilities of the Commission and one you remember deals with the trusteeship you might say of the State's filing on water rights, this has been transferred to the Commission and a very complex job and one with heavy responsibilities. This has taken a lot of work. Also we found we were in the loan business so to speak on the Davis-Grunsky Act and these together with other responsibilities of the Commission have made it apparent we could not function as a part time commission and do a good job unless we did divide ourselves into sub-committees to take on some of these various responsibilities, so in general as I call it we set up some committees, some of which had to do with the commission of the Davis-Grunsky Act. Realizing that this was a place where we needed some business judgment with the permission of the Commission, I appointed three members to that sub-committee. I appointed Mr. George C. Fleharty, Mayor of Redding, a television executive, and also a business man in Redding, as the Chairman. With Mr. Fleharty we now have serving Mr. John King who is on my left, and Mr. King is a business man in Petaluma, real estate insurance, and operates a farming operation and has had some ten years experience with the Bank of America and the American Trust Company. In addition I appointed Mr. Ira J. (Jack) Chrisman whom some of you know is President of California League of Cities. Mr. Chrisman has various business interests among which is a savings and loan organization, so of the commission I want this committee to know we appointed those men that we thought would give this the best possible analysis from the standpoint of the State's financial

interest. Today we have Mr. Fleharty and Mr. King with us and I am going to ask Mr. George Fleharty, the Chairman of the Sub-committee to make our statement for the Commission and to answer the bulk of the questions. If you have general questions regarding commission activities I shall attempt to answer this for you. If that meets with your approval, and Mr. George Fleharty will make the statement.

CHAIRMAN TEALE: I would like to say the practice of this Committee is that witnesses are allowed to complete their statements before they go into questioning.

MR. FLEHARTY: Mr. Chairman and members of the Committee:

This is in response to your letter of May 23, 1960, in which the Committee requested the views of the California Water Commission on certain policy questions which have arisen in the administration of Chapter 1752, Statutes of 1959.

We greatly appreciate the opportunity to appear before you today, and hope that out of this hearing can come some benefit to the many local agencies which are attempting to develop local water resources of the State.

In answering the questions asked in your letter of May 23, we wish to make it clear that they are based on our little more than nine months of experience in the administration of the Act, and that our answers are by no means final.

We also want you to know that the California Water Commission is looking to the Legislature for guidance in many of the questions which have arisen as to type and location of projects to be financed under the Act, eligibility for State assistance and many others. Our legal staff has advised us that the Act applies on a statewide basis, and the answers which we are giving today are based on that premise.

Now, with your permission, the Commission will attempt to answer the questions listed in your letter of May 23, and we will

be happy to attempt to answer such other questions as members of the Committee may have.

Question 1. The Commission and the State Department of Water Resources have established a joint policy giving priority to projects developing new basic water supplies, etc. Will you define this term further: Do you believe legislative review of this policy is desirable: Do you believe that any further priorities for other types of projects are desirable, for instance, where public health is involved?

Answer. The Commission generally defines new basic water supplies as a facility or facilities which develop new water, or make available water previously going to waste. Included in such facilities are dams and reservoirs, main conveyance systems, such as canals and conduits, and distribution facilities only when such facilities are part of a new and integrated system.

The Commission believes that legislative review of this policy is desirable.

It is the Commission's belief that no further priorities are desirable; the matter of public health is believed to be adequately covered in the policy under extreme hardship.

Question 2. Does the Commission have any views as to whether there should be a limit on the total cost of a project, as part of eligibility standards? Should the local agency be required to put up a fixed amount or proportion of the project cost?

Answer. In view of the provision in the Act for legislative authorization of projects costing more than \$4,000,000, we believe that it is not necessary to establish a limit on the total cost of the project.

We believe that there should not be a fixed amount or proportion of the project cost put up by the local agency, but rather this matter should be examined on a project-by-project basis. The amount which can be financed from other sources

should control.

Question 3. Please comment on whether the State might loan money for feasibility reports on local projects. Please comment on whether the State should, through Department staff, prepare these feasibility reports. Is there any possible alternative in the determination of project eligibility to submission of a feasibility report?

Answer: It appears that the State might be setting a dangerous precedent by indiscriminate loans to local agencies for feasibility reports. It is our view that such loans should be made only when a large degree of risk involved is assumed by the local agency. For example, it might be possible for the agency to advance funds required for feasibility reports and if the project were approved, to have them included in the State loan as a part of the project cost. In this way agencies would tend to ask for feasibility loans only on good projects. The legal authority to do this is clouded, based on definition of "project cost".

The Commission concurs with the Department staff that feasibility reports should not be prepared by the State under any conditions.

There appears to be no alternative in the determination of project approval to the submission of a feasibility report, be it prepared by the local agency, the State, or Federal Government, as the case may be.

Question 4. What should be included in the feasibility report? Why should secondary benefits be excluded in showing economic justification?

Answer. The feasibility report should contain all the information necessary to show that the loan is for a sound project, that the benefits exceed the costs, that it can be constructed from an engineering standpoint, and finally, that it can be financed. In our opinion, financial feasibility is equally

important as economic justification.

Secondary benefits are extremely difficult to determine and, while they should be considered in project feasibility, they have little relations to repayment ability.

Question 5. What recommendations would the Commission have for State participation in local projects under Section 12880 (f) of the Act? What source of funds might be used?

Answer. Under existing law (Section 12880 (f)), it is required that local agencies must initiate the request for State participation under this section. It appears to us that in view of the necessity to fully develop all the State's water resources all applications for loans should be carefully scrutinized to determine desirability of possible State participation. To date there has been none in this category.

The sources of funds would depend on the type of project being constructed. In the case of the only project under discussion--the Paskenta Project on Thomes Creek--a north coast export project is involved and the source of funds is clearly identified in S. B. 1106.

Question 6. May grants as well as loans be necessary or desirable for construction for purposes other than recreation and fish and wildlife enhancement? Would grants larger than \$300,000 be necessary or desirable in some cases?

Answer. In the opinion of the Commission, grants or loans for purposes other than recreation and fish and wildlife enhancement are not desirable at this time. If a project covered by the Act produces substantial flood control benefits, this allocation would be provided by the Federal Government.

Grants larger than \$300,000 probably will be necessary and desirable in some cases, but under existing law, these would have to be approved by the Legislature in any case. Each grant above this amount should be judged on its own merits.

Question 7. To what extent should the local agencies have to exhaust other sources of financing? What is sufficiency of proof of inability to finance? Should further development or growth be taken into account in determining ability to use water and ability to pay? What degree of risk is the state justified in taking in making loans on basis of future economic development instead of present financial resources?

Answer. The extent to which local agencies must exhaust other sources of financing is spelled out in some detail in the policy statement adopted by the California Water Commission on March 4, 1960.

There are several fairly conclusive methods by which agencies could prove inability to finance, including failure to market bonds under an approved issue, investigation and report by a reputable bond firm, failure to obtain funds under federal programs along with the first two methods mentioned above, and others.

Future growth and development potential definitely should be taken into account in determining ability to use water and ability to pay. Again, the degree to which this should be done is a judgment matter, as is the degree of risk the State is justified in taking on this basis.

It is the belief of the Commission that the intention of the Act was that its administrators should consider future potential and should be prepared to take a reasonable risk in making loans.

Question 8. Is the present relationship of the Department and the Commission in the processing, approving and granting of loans and grants satisfactory?

Answer. The relationship of the Commission and the Department in the processing of loans and grants is satisfactory to this point. Because of the fact that no agencies have as yet submitted complete feasibility reports, the Commission has not been required to approve a loan or a grant up to this time.

Question 9. Would you comment on the possibility of continuing the present \$15,000,000 fund as a revolving fund; and of constituting the \$130,000,000 fund proposed in the Burns-Porter Act as a revolving fund? Have you a suggestion as to a fund source for repayment of bonds if the \$130,000,000 loan fund were made a revolving fund?

Answer. It would seem highly desirable to continue the present \$15,000,000 fund as a revolving fund if possible under the law. Constituting the \$130,000,000 fund proposed in the Burns-Porter Act as a revolving fund, however, raises serious questions on the repayment of bonds.

Question 10. Would you comment on the relationship of the State loan program with that of the Federal government under Public Law 984.

Answer. On paper there is no conflict between the State loan program and that of the Federal Government under Public Law 984. Some questions have arisen in Congress, however, as to the desirability of loaning both Federal and State funds to the same local agency for the same project. Chairman Aspinall of the House Interior Committee has specifically objected to the provision under which the South Sutter Water District must repay its State loan with interest in a shorter period of time than it must pay its Federal non-interest loan. It appears to us that questions are more practical than technical and, under the law, there is no conflict between the two programs.

In considering the Federal loan program under the requirement of inability to finance, the Department and the Commission should give some weight to the funds remaining in the Federal program as well as to the possibility that appropriations for California projects may be reduced in the next few years.

Question 11. Should a limit be placed on the portion of the State loan funds that could be disbursed for grants?

Answer. It is our opinion that a definite limit should be placed on the portion of the funds available under Davis-Grunsky which could be disbursed for grants. Again, the question of repayment of bonds becomes a serious factor here. While we do not recommend a specific amount, we do not believe the proportion should be much more than 10 percent of the whole.

Question 12. Would you comment on the ability under present law of various local agencies to borrow from the State under Chapter 1752 and to contract for repayment of these loans?

Answer. This is a legal question and a review of this matter has been previously presented to you by the legal staff of the Department of Water Resources.

The California Water Commission greatly appreciates the opportunity to present this information to your Committee, and its representatives will be happy to answer further questions and obtain for you such further information as you may desire.

CHAIRMAN TEALE: Thank you Mr. Fleharty. Before I begin the session for questions I would like to do something with these charts before us. We have three different sets, three different lists of projects which are listed as possible projects suitable under the Davis-Grunsky Act. I have one that was presented to the Water Committee I believe on May the 7th of 1959, which is a list of projects which might be discussed by the State or might qualify for financing contributions under Provision 12880 of the Davis-Grunsky Act. About ten or twelve of the projects will total a hundred and thirty million.

I would ask this be made a part of the report too, that is List Number 1 and List Number 2.

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List of local projects that might be constructed by the State or might qualify for financial contribution by the State under provisions of Section 12880 of the Water Code and S. B. 1106, as amended.

Project	Stream	County	Capital Cost
Allen Camp	Pit River	Modoc and Lassen	\$ 7,500,000
Bcx Canyon	Sacramento River	Siskiyou and Shasta	5,000,000
Hulen	Cottonwood Creek	Shasta and Tehama	7,000,000
Paskenta	Thomes Creek	Tehama	5,000,000
Sheep Camp	Middle Fork Feather River	Plumas and Sierra	6,000,000
Upper Putah Creek	Putah Creek	Lake and Napa	4,000,000
Wilson Valley	Cache Creek and Clear Lake	Yolo and Lake	29,000,000
Yuba-Bear River	Yuba River and Bear River	Yuba, Placer and Nevada	18,000,000*
Branscomb	South Fork Eel River	Mendocino and Humboldt	9,000,000
Callahan	Scott River	Siskiyou	7,500,000
Grenada Ranch	Shasta River	Siskiyou	3,000,000
Calaveras County Development	North Fork Stanislaus River	Calaveras and Tuolumne	14,000,000 P
Mariposa County	Chowchilla River	Mariposa	2,000,000*P
Tuolumne County	Stanislaus River and Tuolumne River	Tuolumne	9,000,000 P
Glenwood	West Branch Soquel Creek	Santa Cruz	1,000,000
Pescadero	Pescadero Creek	San Mateo	3,000,000
TOTAL			\$130,000,000

* - State financial participation.

P - Power development included.

TABLE L

Local Projects

That might require State Financial assistance in the near future.

<u>Project</u>	<u>Stream</u>	<u>County</u>	<u>New Yield, Estimated Total in acre-feet capital cost in dollars</u>	
Allen Camp	Pit River	Modoc and Lassen	58,000	9,000,000
Grenada Ranch	Shasta River	Siskiyou	22,000	4,000,000
Ruth	Mad River	Trinity and Humboldt	84,000	7,000,000
Devils Corral	Susan River	Lassen	31,000	5,000,000
Long Valley	Long Valley Creek	Lassen	8,000	1,000,000
Millvillito	South Cow Creek	Shasta	11,000	1,000,000
Deer Creek Meadows	Deer Creek	Tehama	50,000	9,000,000
Paskenta	Thomes Creek	Tehama	35,000	5,000,000
Jackson Meadows	Middle Fork Yuba	Nevada	20,000	7,000,000
Rollins	Bear River	Placer and Nevada	50,000	6,000,000
Wilson Valley	Cache Creek	Yolo and Lake	200,000	40,000,000
Upper Putah Creek	Putah Creek	Lake and Napa	6,000	1,000,000
Camp Far West	Bear River	Sutter	65,000	6,000,000
Stumpy Meadows	Pilot Creek	El Dorado	15,000	5,000,000
Jackson Creek	Jackson Creek and Mokelumne River	Amador	12,000	2,000,000
Spicer Meadow	Highland Creek	Alpine and Calaveras	100,000	25,000,000
Browns Meadows	North Fork Tuolumne River	Tuolumne	68,000	22,000,000
Aqua Fria	Mariposa Creek	Mariposa	13,000	2,000,000
Windy Gap	Fresno River	Madera	13,000	2,000,000
Pilarcitos	Pilarcitos Creek	San Mateo	1,500	500,000
Pescadero and Butano Point	Pescadero Creek	San Mateo	40,000	7,000,000
Glenwood	Soquel Creek	Santa Cruz	2,000	1,000,000
Newell Creek	Newell Creek	Santa Cruz	4,000	6,000,000
San Antonio	San Antonio River	Monterey	46,000	8,000,000
Lopez	Arroyo Grande Creek	San Luis Obispo	6,500	4,000,000
Paso Robles	Paso Robles Creek	San Luis Obispo	13,000	2,000,000
Fallbrook-Lippincott	San Margarita River	San Diego	5,000	5,500,000

State Total	979,000	194,500,000
Less Funds from other sources		<u>64,500,000</u>

Amount of State Financial Assistance 130,000,000
that may be required in the near future

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TABLE 2

Estimated Funds from Local Projects from Sources
Other than State Financial Assistance Program

<u>Project</u>	<u>Capital Cost, in dollars</u>	<u>Source</u>
Wilson Valley	10,000,000	Federal Flood Control
Deer Creek Meadow	3,500,000	local
Bath	6,700,000	local
Browns Meadows	5,900,000	local
Spicer Meadow	6,900,000	local
Jackson Creek	1,800,000	Federal Small Project
Camp Far West	4,400,000	Federal Small Project
Stumpy Meadows	4,700,000	Federal Small Project
Palarcitos	300,000	local
San Antonio	7,700,000	local
Mwel Creek	5,500,000	local
Paso Robles	2,200,000	local
Lopez	3,700,000	local
Hallbrook-Lippincott	<u>1,200,000</u>	Federal Small Project
Total	64,500,000	

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REQUESTS FOR PRELIMINARY DETERMINATION OF ELIGIBILITY
FOR FINANCIAL ASSISTANCE UNDER THE DAVIS-GRUMSKY ACT

As of June 1, 1960

Agency (Date received)	Project	Funds requested		Notification	
		Loan	Grant	to applicant	
Fallbrook Public Utility District, San Diego County (11/25/59)	Storage and distribution project for municipal and irrigation purposes in vicinity of Fallbrook. Dam on Santa Margarita River - includes recreation and fish enhancement Approx. Cost = \$5- $\frac{1}{2}$ million.	\$4,000,000	\$300,000	Found not eligible for loan under in- ability to finance requirement. Found eligible for grant Notified 4/20/60	1
Monterey County Flood Control and Water Conservation District	Storage project on San Antonio River for ground water recharge in Salinas V Valley - includes recreation and fish enhancement (San Antonio Project).		\$300,00	Found eligible for grant. Notified 3/30/60	1
Lake County Flood Control and Water Conservation District (12/28/59)	Public Law 566 Adobe Creek Project, for Flood control in area south of Lakeport includes fish enhancement (\$148,500). Approx. Cos = \$1 million.		\$74.250	Found eligible for grant. Notified 4/6/60	1
Palo Verde Irrigation District, Riverside County	Irrigation distribution project to deliver Colorado River water to Blythe Mesa near Colorado River	\$3,500,000		Loan cannot be ap- proved at this time due to policy on distribution system and water rights, although project satisfies eligibil- ity requirements at present. Notified 4/20/60	1

Agency (Dated received)	Project	Funds requested Loan : Grant	Notification to April 29
Elsinore Valley Municipal Water District, Riverside County (1/14/60)	Expansion of water system to deliver Colorado River Water to homes in the area north of Lake Elsinore. Approx. Cost = \$337,000	\$ 337,000	
City of Santa Cruz, Santa Cruz County (1/15/60)	Municipal storage and distribution pro- ject for the City of Santa Cruz - in- cludes recreation and fish enhancement (Newell Creek Project). Approx. Cost = \$2-1/3 million.	\$470,000	Found eligible for grant. Notified 4/4/60
Yuba County Water Agency (1/19/60)	Comprehensive power, flood control and irrigation project on the Yuba River - includes recreation (Yuba Basin Develop- ment). Approx. Cost = \$154 million.	\$300,000	Found eligible for grant. Notified 3/30/60
Sierra County Water-Replacement of small domestic water works District No. 1 supply for town of Calpine, north (1/21/60)	of Lake Tahoe - includes recreation (Calpine Project). Approx. Cost = \$75,000	70,000 \$ 5,000	Found eligible for loan subject to additional showing regarding inability to finance. <u>Not</u> eligible for grant. Notified 3/29/60
City of San Luis Obispo, San Luis Obispo County (1/21/60)	Municipal Water supply project for City of San Luis Obispo and State Insti- tutions (Whale Rock Project). Approx. Cost = \$7-3/4 million	400,000	Found <u>Not</u> eligible for loan under in- ability to finance requirement. Notified 4/22/60

Agency (Date Received)	Project	Cost requested : : Loan : Grant:	Notification to applicant
Humboldt Bay Municipal Water District Humboldt County (1/26/60)	Municipal water supply project on Mad River to supply the City of Eureka - includes fish enhancement (Mad River Project). Approx. Cost = \$10-3/4 million	\$300,00	Found eligible for grant. Notified 3/29/60
Coastside County Water District, San Mateo County (1/26/60)	Municipal water supply project to supply area south of Half Moon Bay (Pilarcitos Project). Approx. Cost = \$450,000.	\$ 250,000	Found <u>not</u> eligible for loan under inability to finance requirement. Notified 4/13/60
Alameda County Flood Control and Water Conservation District, (1/29/60)	To small flood control reservoirs in the San Lorenzo Creek Watershed - includes recreation. Approx. Cost = \$1 million	290,000	Found eligible for grant. Notified 4/1/60.
Jackson Valley Irrigation District Amador County (2/15/60)	Public Law 984 project for irrigation purposes in vicinity of Jackson - includes fish enhancement. Federal loan amounts to \$1,327,000 (Jackson Creek Project) Approx. Cost - \$1-1/2 million.	80,000 88,000	
San Luis Obispo County Flood Control and Water Conservation District (3/3/60)	Irrigation, industrial, and municipal water supply project to supply area in vicinity of Atascadero - includes recreation (Paso Robles Project). Approx. Cost. \$2-1/2 million.	300,000	
South Sutter Water District, Sutter County. (3/7/60)	Public Law 984 project for irrigation purposes in the area southeast of Marysville - includes recreation (Camp Far West Project). Approx. Cost = \$6 million.	300,0000	

Agency (Date Received)	Project	Funds requested : : Loan : Grant	Notified to applicant
Humboldt Bay Municipal Water District Humboldt County (1/26/60)	Municipal water supply project on Mad River to supply the City of Eureka - includes fish enhancement (Mad River Project). Approx. Cost = \$10-3/4 million	\$300,00	Found eligible for grant. Notified 3/29/60
Coastside County Water District, San Mateo County (1/26/60)	Municipal water supply project to supply area south of Half Moon Bay (Pilarcitos Project). Approx. Cost = \$450,000.	\$ 250,000	Found not eligible for loan under inability to finance requirement. Notified 4/13/60
Alameda County Flood Control and Water Conservation District, (1/29/60)	To small flood control reservoirs in the San Lorenzo Creek Watershed - includes recreation. Approx. Cost = \$1 million	290,000	Found eligible for grant. Notified 4/1/60.
Jackson Valley Irrigation District Amador County (2/15/60)	Public Law 984 project for irrigation purposes in vicinity of Jackson - includes fish enhancement. Federal loan amounts to \$1,327,000 (Jackson Creek Project) Approx. Cost - \$1-1/2 million. Irrigation, industrial, and municipal	80,000 88,000	
San Luis Obispo County Flood Control and Water Conservation District (3/3/60)	Water supply project to supply area in vicinity of Atascadero - includes recreation (Paso Robles Project). Approx. Cost. \$2-1/2 million.	300,000	
South Sutter Water District, Sutter County. (3/7/60)	Public Law 984 project for irrigation purposes in the area southeast of Marysville - includes recreation (Camp Far West Project). Approx. Cost = \$6 million.	300,0000	

Agency (Date received)	Project	Funds requested : Loan : Grant : :	Notification : to applicant : :
Shasta Community Services District, Shasta County (3/10/60)	Feeder and distribution system to supply municipal water from Trinity River Development for town of Shasta. Approx. Cost = \$1/2 million.	\$ 479,000	
Humboldt Community Services District, Humboldt County	Municipal feeder and distribution system project for the City of Eureka. Approx. Cost = \$1/3 million.	275,000	
Dowdenville Public Utility District, Sierra County (3/16/60)	New municipal water supply and distribution project for Dowdenville - replaces existing system. Approx. Cost = \$170,000.	170,000	
Big Valley Irrigation District, Lassen and Modoc Counties (3/21/60)	Irrigation storage and distribution project includes recreation (Allen Camp Project). Approx. Cost = \$9-1/3 million	5,294,500 \$ 300,000	
San Luis Obispo County Flood Control and Water Conservation District (4/1/60)	Municipal and irrigation water supply project for vicinity of Arroyo Grande includes recreation and fish enhancement (Lopez Project). Approx. Cost = \$4-1/4 million.	300,000	
City of Fortuna, Humboldt County (4/8/60)	Municipal water supply project. Approx. Cost = \$1/2 million	\$350,000	
City of San Diego, San Diego County (4/27/60)	Terminal storage reservoir for domestic purposes - includes fish enhancement. Approx. Cost = \$2 million.	\$300,000	
Georgetown Divide Public Utility District El Dorado County (5/16/60)	Public Law 984 project for irrigation purposes east of Georgetown - includes recreation (Stumpy Meadows Project). Approx. Cost = \$4,700,000)	300,000	

SUMMARY

<u>Item</u>	<u>Number</u>	<u>Amount</u>
Agencies requesting funds	23	\$18,832.950
Loans requested	12	15,205,700
Grants requested	15	3,927,250
Requests for loans only	8	
Requests for grants only	11	
Agencies requesting both loans and grants	4	

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SENATOR COBEY: Pardon me, Mr. Chairman.

CHAIRMAN TEALE: Number 2 is the thermo-fax sheet dated June 1, 1960, and is a request for preliminary determination of eligibility for financial assistance under the Davis-Grunsky Act. \$91,000,000 worth of grants and applications for grants and loans, and I would ask this also be made a part of our official record. This comes from the Water Department. The third list that I wish to be made a part of the record is dated June 23rd, 1960, and is the table which the Department of Water Resources handed to us yesterday, which also is entitled Local Projects that might require state financial assistance in the near future. This comes to a total of a hundred and thirty million dollars, and lists a group that is somewhat similar but not exactly the same as the list in the table in the first exhibit. Will ask this be made a part of the record.

SENATOR COBEY: The first list you introduced in the record totals sixty-four million, five hundred. Is that right, page 1, total \$31,000. There are two pages to that.

MR. FLEHARTY: Mr. Chairman, the Committee did not have a copy of this. This is one we dug out of our files. The list was submitted to the Water Committee at the time the Davis-Grunsky

Bill was under consideration in 1959.

SENATOR WILLIAMSON: Mr. Chairman, this hundred and thirty million is actually a hundred and ninety-four million, five thousand less the Federal contributions. Is that right, Mr. Chairman?

CHAIRMAN TEALE: That's right, this white sheet. I want to get that straight for the record what these various lists of projects were before we go into any further discussion.

SENATOR COBEY: Could we have copies attached to that first list, what this is, I total sixty-four million, five.

CHAIRMAN TEAL: That is another project of this section and page Number 1. Are we all squared away on that matter now?

Mr. Fleharty, I want to ask a question and I think I have a simple answer. On page 2 of your presentation at the bottom of the page it states in view of the provisions of the Act for legislative authorization of projects costing more than \$4,000,000, isn't \$4,000,000 the limit the State may loan without further legislative authorization?

MR. FLEHARTY: That is correct, Senator Chairman.

CHAIRMAN TEALE: Not the total cost of the project, Mr. Fleharty?

MR. FLEHARTY: That is correct, Senator Chairman.

CHAIRMAN TEALE: Fine, I wanted to correct that. Then I want to go over to page 4 of your presentation regarding Question 4 in which you discussed the feasibility from a practical standpoint. Is there a difference in any financial feasibility depending on the source of the fund and the length of time of repayment that is available to an agency? In other words, if you are working on a twenty year bond basis, forty year bond basis, or a fifty year bond basis there definitely is a difference in feasibility, which one might profess, feasibility under one provision and not under the other?

MR. FLEHARTY: I believe very definitely the forty year,

span of repayment would qualify many more agencies than a twenty year plan under bonding procedures.

CHAIRMAN TEALE: Could you just briefly tell us what sources are available to these local agencies and what the period of repayments are on these various sources.

MR. FLERHARTY: The particular agency that, and I am probably less qualified to discuss with you this today on municipalities, and they are limited to a twenty year repayment bond which would have to be voted by the people within the community either for a storage program project or a storage project developing a source of water supply with some distribution attached. I think our policy at the present time requires that these projects be preliminary. In fact, almost all sources of development regardless whether they are source of development or distribution, the municipalities would be restricted to the twenty year bond repayment. It would serve the community from fifteen to twenty years. Therefore, I believe this would qualify an agreement from municipalities in a state if the policies were directed in that plan.

SENATOR TEALE: Is the limitation to repayment period as far as municipalities is concerned, is that directed toward the general length of the bond you may issue? Would that affect your power of purchasing for municipalities, purchasing money of some other source for a longer period of time?

MR. FLERHARTY: We are required in all our bond issues to maintain a twenty year repayment period. It would also go against our bonded indebtedness of the particular community.

CHAIRMAN TEALE: Then you would or a municipality would be able to avail itself of the forty year loan. I will direct that question also to Mr. Whitaker and ask his opinion on it a little later? Mr. Whittaker I would like to get your impression at this time.

MR. WHITTAKER: I just would not be qualified to answer that question.

CHAIRMAN TEALE: But you definitely think it would make a

difference in the feasibility of the project?

MR. WATKINS: I'm sure that to date there's been some indication communities could avail themselves of the Davis-Grunsky program, but I also appreciate the comment that you just raised which is the limit of the repayment.

MR. FLEHARTY: Mr. Chairman, Mr. King is also Chairman of the City Council and may have an opinion.

CHAIRMAN TEALE: Would you have a comment.

MR. KING: I definitely agree with Mr. Fleharty. The period of financing certainly would affect feasibility.

CHAIRMAN TEALE: Page 6 of your presentation, Mr. Fleharty, you made a point that to date this relationship of the Department and Commission is satisfactory and I would like to raise a point. I raised a question today with the Department as to the mechanics of the process and these applications both for eligibility and later processing for feasibility and approval of loans. Do you have within your own commission structure staffs sufficient to process these applications and reach determination with a staff as separate and apart from the Water Department Staff, or either dependent upon a staff from the Water Department itself and if so, is that staff from the Water Department also concerned with the same problems? In other words with the same personality working on problems for both agencies.

MR. FLEHARTY: Mr. Chairman I would like to answer this question as sub-committee chairman and as an individual and I would like additional amplification of the Chairman if that would be all right and in order. At the present time we are using the staff of the Department and consulting with them in our review of the feasibility reports. To date this process has worked very well. However there's some division on it in that certainly we are somewhat dependent upon the Department's opinion because this is the research that is being done for us by the Department if

called upon to do or to make or to venture our own decision in a particular application. We are certainly going to be influenced to some degree by those findings the Department would make. I would point this out at this time. I would like to defer to the Chairman of the Commission.

CHAIRMAN TEALE: Mr. Carr.

MR. CARR: Mr. Chairman, we certainly use the same employees and the same technical assistance as the Department at arriving at an agreement. Really this whole question is a little broader as far as the Commission is concerned than the Davis-Grunsky loans. I mentioned earlier you will recall our very heavy responsibility as far as the assignment of state water rights filings are concerned. Here again we depend upon the Department to a very large extent for technical assistance, and this is the same department that is coming before our commission for the assignment of state filings. We do have an engineer assigned to us from the Department. He's a member of the Director's Staff and has had a lot of experience in the Department. Mr. George Gleason, offhand without checking I would say he probably devotes about sixty percent of his time to the work of the Commission. We also have a young man assigned to us on the legal staff from the General Counsel's Office and he answers whatever legal questions might arise as far as the Commissions are concerned. I think we have to look at this a little bit along the lines of whether the Legislature wants the Commission to go into these things in detail as far as the Engineering Commission is concerned and legalities are concerned, or whether the Legislature wants the Commission to exercise its best judgment and assuming they are getting all the facts that are involved. This is one of the reasons I appointed this particular subcommittee. I picked the three men on our Commission who had experience, background et cetera to act, you might say, as bankers for the State. I think some is usually mentioned probably and

is the reason we haven't made any loans yet. I do want, so there is no misunderstanding, to say that the Committee has been very pleased with the work of Mr. Robert Eiland, who has had charge of this for the Department. Mr. Eiland and his staff have done I think an outstanding continuous job of digging into this problem and trying to set up rules and regulations and assisting the Commission. We have been very pleased with that assistance, but as I said earlier it goes to the broader question as to far you want the commission to go and particularly on this assignment of the State of water filings because here we have the very man working for a Department that asks us to make an assignment for the project. They are going to construct these. They are the engineering and legal advisors on whom we must rely to get the job done and surely as a part-time commission we cannot do all these things ourselves. We have Mr. William Jennings, Vice Chairman of the Commission and he has given us lots of help. As you know, he is an outstanding water lawyer. We have three engineers on the commission but I think the Legislature does not intend that the Commission should do all of this work and the result right now is that we are calling on our commission members two and three days a month trying to get this work done. That is the actual days spent aside from their business and as Chairman I have had quite a heavy load some of which has been taken care of in the evening and on weekends in order to try to make these things go. To boil it all down, I think if this is the way you want to proceed, you should give serious consideration to a very limited staff which would not more than maybe in addition to our Executive Secretary, who does an excellent job, one attorney and one engineering consultant and one engineer on the staff that might have loyalty to the Commission solely. That would be my personal opinion, Mr. Chairman, and I have not discussed this in full with the members of the Commission.

CHAIRMAN TEALE: Any questions by members of the Committee?

SENATOR COBEY: With regard to that last statement of yours, Mr. Carr, there is a question involved as to how far the Legislature wants to depart from the original concept of the commission's function as defined in Section 2612 of the Water Code which were set up as advisors in the body of the record. What you are pointing out, subsequently given to certain powers, and if those powers are to be exercised most intelligently and also if you function as an agency you will have to have an independent staff in exercise at least of those powers.

MR. CARR: You are correct, Senator Cobey, when you had the reorganization bill in the Commission which previously had much broader powers and had become advisory, then you have given the Commission some very heavy responsibility without a staff except that provided by the Department. Now, this is a good point to tell you that I was very pleased to read that your committee has employed Dean Leo Huard of Santa Clara University to make your review of what the law is now and what our responsibilities are because as we dig into and try to do our job we find there are some things we think should have some legislative analysis and possible change.

SENATOR COBEY: With respect to this matter of continuing the fifteen million dollar fund, which under the terms of the Davis-Grunsky Act as I see it, under Section 14, will then be transferred into the California Water Fund, Mr. Chairman, I wonder if we might have at a subsequent date, the opinion of the legislative counsel, whether that would be possible.

CHAIRMAN TEALE: I think, Senator Cobey that we have an opinion to that effect now. Am I correct, Mr. Whittaker? Was it the legislative counsel already rendered an opinion on whether or not fifteen million dollars may be continued? I would like to interrupt to say that we also have a delegation of ladies in the

back and we welcome them and we are glad to see somebody here representing the people. Proceed, Mr. Whittaker.

MR. WHITTAKER: In our opinion, the one you are referring to, if the bond act passes the local project assistance fund is polished off from the fifteen million dollars and is transferred to the California Water Fund or anything left of the fifteen million dollars, so without further legislation you couldn't have a revolving fund, you couldn't establish another revolving fund but there won't be one without further legislation.

SENATOR COBEY: What I was wondering, you said in Section 14 of the Grunsky Act, Davis-Grunsky Act, that's what it says in the passage of the Burns-Porter Act, approval of this local project assistance fund, and that's part of the California Water Fund, whether its the California Water Fund, I forgotten frankly. Is it compromised in the Burns-Porter Act?

MR. WHITTAKER: No, anymore that is there is appropriated by the Legislature.

SENATOR COBEY: So it would have control. We could use that as a revolving fund?

MR. WHITTAKER: Provided legislation.

SENATOR COBEY: My second question is, have you rendered an opinion on this question as to whether or not the hundred and thirty million dollars provided for in the Burns-Porter Act can be used as a revolving fund or is it a one shot deal?

MR. WHITTAKER: I don't think we considered it strictly, but I think the implication of our opinion is the language with all other revenues, state water resources development system, any revenues the state receives is repayment of loans under the Davis-Grunsky Act. It will be controlled by the bond act. The section would provide these be used for repayment of principal and interest, operations and maintenance of the facilities and other purposes specified.

SENATOR COBEY: As the loans are repaid those funds are merely so to speak deposited in the common pot of the Burns-Porter Act and the provisions of the Burns-Porter Act setting up certain priorities with respect to use and development and control so they wouldn't be channeled back into the Davis-Grunsky program at all?

MR. WHITTAKER: That's right.

SENATOR COBEY: One further question: If these completely take the grant to the extent that the grants are made from this hundred and thirty million dollars we are assuming the Burns-Porter Act has been approved by the people and becomes law under steps that grants are made. That money has to be repaid by the beneficiaries of the state water system as a whole, does it not under this section 11,455 that the Department has to enter into contract that provides for full repayment and, since these grants are coming out of these bond funds and these bonds have to be repaid this means the beneficiaries, the other beneficiaries of the state water program will have to pay these grants rather than the general taxpayer?

MR. WHITTAKER: Well, not necessarily. The grant, the bond act sets up a hundred and thirty million dollars which is earmarked bond fund and is earmarked the bond act and also provides the California water money can be used in lieu of the bond fund conceivably and the grant could be made out of the California Water Fund money in which case there would not be any requirements of or legal requirement that the people be repaid.

SENATOR COBEY: If there is no repayment made out of the California Water Fund, there would be no requirement of water repayment if it were made out of the bond proceeds themselves and then it would have to be repaid by the other beneficiaries. In effect, is that right?

MR. WHITTAKER: That's right.

SENATOR COBEY: And the same thing would be true I presume with respect to loans that went sour? In other words, if not repaid there didn't seem to be any reasonable method of enforcing repayment and you'd have the same situation, would you not?

MR. WHITTAKER: That's right, repayment of bonds under the bond act is entirely separate from any loan program of the Davis-Grunsky Act. They have to be repaid.

SENATOR COBEY: I was referring to the Burns-Porter Act, and I was referring to this yesterday. I don't recall if you were here. We were discussing in the morning the question of some of these loans under the Davis-Grunsky Act itself. And to the extent they do go sour there's a deficiency and my question is I would assume if those loans had been made from the California Water Fund why then you'll have problems. The Water Fund has suffered a loss if those loans had been paid from the bond proceeds and again the beneficiaries, the other beneficiaries of the State Water Program under Section 11,455 of the Water Code would have to pick up the tab for that deficiency too.

MR. WHITTAKER: Eventually if the other beneficiaries of contracts call for a stated payment, it would have to be picked up I assume over a long period of time in the general fund, making advances in the interim.

SENATOR COBEY: My question is the time in contracting, in making the contract with these various beneficiaries, you are going to have to think about the additional burden of the Davis-Grunsky Act to the extent the use is proposed and so to speak right in a, shall we say, continuous reserve on top of those contracts so that takes care of the Davis-Grunsky problem.

MR. WHITTAKER: Probably so.

SENATOR WILLIAMS: Are you through, Senator Cobey?

SENATOR COBEY: One further question, pardon me, Senator Williams, I was wondering whether or not, Mr. Chairman, this

committee could request a definition of the word "statewide interest" from the Legislative Counsel and also whether or not the Department or the Commission would be interested in taking another try at the subject because I cannot see any relationship between the definition of the Department or the Commission as proposed in the words that are being defined.

CHAIRMAN TEALE: I don't think we have to worry about that whether we have to ask, we'll simply ask. We'll ask Mr. Whittaker to prepare a definition of "statewide interest" and also ask the Commission whether they will communicate with other Departments and see what they come up with.

MR. CARR: We'll be happy to cooperate on that.

SENATOR WILLIAMS: This therma-fax copy given us today is a determination for eligibility of financial assistance in the Davis-Grunsky Act. Did your commission have any jurisdiction over this paper? Do you have anything to do with this compiling and reviewing?

MR. FLEHARTY: Senator Williams, if I might answer that question, our part in the compiling of this particular paper, this is just one paper, Senator Williams. We have been working with Mr. Elland in the Department. Our sub-committee has been working with the Department on the preliminary determination of eligibility on all of these projects. The original compilation of course was made by the Department, then in each instance, and we have discussed with them before reporting to the Commission itself for a decision, and a determination and if there was any particular question in the determination, then of course, we did review it further, but we put it over to the next meeting and it was finally brought before the Commission as a whole. Now there are generally I think a number of letters written following this determination of eligibility, notifying various applicants of their status, telling them to go ahead on a feasibility study.

These letters have also been reviewed and approved by the Commission prior to their sending. They have been done primarily in meeting with two, three or four people from the Departments and they have presented us with their findings. We have reviewed them and criticized them and to date we have also been able to reach agreement.

SENATOR WILLIAMS: You are not in disagreement with the paper as now presented to the committee are you?

MR. FLEHARTY: No, sir

SENATOR WILLIAMS: I notice there is a paragraph that probably applies to recreation, fish and wildlife, is that right?

MR. WHITTAKER: That is correct.

SENATOR WILLIAMS: I notice the first one, the Fallbrook Utility District. It says, found not eligible for a loan, but found eligible for a grant. Now, does that mean that they will have to go and get their four million dollars some other place, the Federal Government or local sources, is that right? They will get their grant of three hundred thousand?

MR. FLEHARTY: A grant does not have repayment features and would be separate from the loan. That is correct as far as our initial report is concerned.

MR. CARR: Excuse me, Mr. Fleharty. Senator Williams, you remember this is an outgrowth of the long battle over the Fallbrook case and one which you had with your committee there some years ago in joint meetings with Congress and after the committee took action on it I understand they did decide to go ahead with the dam under development from the one being discussed at the time your committee was here and we refused to give them a grant, I mean a loan because they are still in litigation. We did tell Fallbrook that if they could finance the project separate from a loan, which we would not give them, they would appear to be eligible for a grant on the recreational end of it as far as

we were concerned.

SENATOR WILLIAMS: Its the policy of the Commission not to grant a loan where there is litigation, as I read your letter you sent to the committee?

MR. CARR: That's right.

SENATOR WILLIAMS: On page 2 of the statement you presented the question number 2 which applies to eligibility standards and it says part of that question should have the local agency, that they we required to put up a fixed amount or proportion of the project cost and then your answer states in substance that it wouldn't be necessary in view of the Act which provides legislative authorizations for projects costing more than four million dollars. Then referring now to page 3 at the top of the page which is a continuation of your answer, we believe that there should not be a fixed amount or proportion of the project cost put up by the local agency, rather the matter should be examined on a project by project basis. The question is I want to ask this. If the local agency is not able to put up an amount, a substantial amount, then would it be the policy of the commission to take care of those projects where the local agencies could put up a substantial amount. Would it be your policy to take care of them first?

MR. FLEHARTY: To date Senator Williams there has been no prior decision on that basis. We have taken the projects and considered them primarily on the basis of desirability of projects themselves other than financial ability of the agency.

SENATOR WILLIAMS: You take them at a first come first served basis?

MR. FLEHARTY: No. Its not first come first served priority. Its priority of project and of course we are speaking theoretically now because priority under one has not been created to date but we are trying to consider them on the basis of desirability of projects themselves other than notice.

SENATOR WILLIAMS: I was just wondering if you had the bulk of your requests for loans made by the agency that didn't put up but a small amount, if you would find yourself spending money for those sort of loans and not money for people who could finance but have a project?

MR. FLEHARTY: That contribution in any case is limited to four million dollars. If you had a twelve million dollar project the agency would put up eight million, four million would go out and therefore we get the limitation to take care of that particular part of the problem.

CHAIRMAN TEALE: I will interrupt just a moment to give the Reporter a two minute break.

(The committee was reconvened after recess.)

CHAIRMAN TEALE: We'll resume our questioning. Before you resume I would like to call the attention of the committee members again, I'd like to call the attention of the committee members, to the fact, that all of the legislative counsel opinions which this committee has received until the first of May of last year are in our last report and I am asking the staff to send out copies of the ones we have received since then, plus any further ones each committee member may have.

SENATOR WILLIAMS: During the recess here I discussed some of this matter here with Mr. Carr and the next question that I have is a question of establishing priorities. When you don't have all other projects or at least a substantial portion of the projects before you. Now, yesterday we received this table copy here, local projects that might certify for financial assistance in the near future. As I understand, none of these projects are or ever have been requested or even a study made of them but the Department took it upon themselves I am told to say these might come in eventually and you can bet that I might know they happen to be listed as a possibility and I'd be trying to have them come

in as fast as they could. I think that is basic with all of us. The question arises here with mathematics. Until you have all these projects in and were going to spend all this money on the first few that come in, the rest of them will just whistle for any funds at a later date. Is that about where we are.

MR. FLEHARTY: We have given public notice. We are sending applications of course to the distribution of that and previous material has been made and I think our current policy is to proceed and process applications and when found feasible from a financial standpoint, go ahead and make the loans.

SENATOR WILLIAMS: Do you know how many more will come in at a later date? There might be fifty times that.

MR. FLEHARTY: The notice has been given. I'm sure if the spirit is there in a particular area the applications would be forthcoming at an early date.

SENATOR WILLIAMS: Do you feel it is necessary for you people to have a complete staff of engineers and so forth like the Water Department has in order to do the job? That has been mentioned I think.

MR. FLEHARTY: I'll refer that to the Chairman again.

MR. CARR: Senator Williams, I want to make that clear. I think all members of the Commission are of the opinion that we need to have an absolute minimum staff. The reason you appointed the Commission in the first place or recreated it was to bring in men who have other jobs to exercise judgment when the facts are presented to them. Now there is a tendency, as Senator Cobey pointed out, with some of our recent responsibilities to put us in a position where we are relying on the same technical advice that is being given by men who are employed by people coming before us and discussing or asking us to act, especially in the field of assigning the state filings for water rights. I think it is a more serious problem than it is with the Davis-Grunsky loans, and I certainly am not

prepared now to give you any definite ideas on what we should do with a staff. As I said earlier, my offhand opinion at the moment is that the Commission should have a minimum of engineers and attorneys to advise the Commission on some of these things which in effect the Commission members are trying to do themselves. Frankly, we have been in meetings at times where we have called on Bill Jennings, our water lawyer, from San Diego, to give us his own personal, legal opinions in some of these matters and I think the Legislature intended to put the Commission members to work in their approved capacity. This is an area where I know the Chairman has discussed with me this issue before and I think you are on the right track by getting first an analysis that you are getting of Dean Howard as to what the law says we should do. When we find that out, I think the members of the committee will be in a position to say what additional changes should be made and staff involved.

SENATOR WILLIAMS: I'm sure your appointment was made because of all committees appointed you are dedicated people willing to do this extra work free of charge.

MR. CARR: I want to tell you --

SENATOR WILLIAMS: We appreciate it too, believe me.

MR. CARR: We are not trying to get out of work but there is a limit as to how much detail review we can make on some of these things.

CHAIRMAN TEALE: Senator Johnson, did you have one.

SENATOR JOHNSON: I think one thing should be clarified. Under the report of the Department. No laws made on water rights, and the Legislature will be called upon in the coming session to give funds and in many of those cases they will be in litigation. We would be wasting our time if that is the case. What is the position of the Commission on that insofar as priority of applications that might have been made or inquiry that might have been made. I know in my district there was at least on several reports a request asking

for three hundred thousand. I know I am going to be called upon to ask for more than three hundred thousand dollars. The water rights have not been settled. What is the status of that?

CHAIRMAN TEALE: Mr. Carr, do you want to answer that?

MR. FLEHARTY: I believe its contained in our policy clarification which is a policy clarification of both the Department and the Commission under the water rights loans and grants. They will not be made to agencies for projects where water rights for projects are in litigation.

SENATOR JOHNSON: In other words, Legislature will be wasting its time to ask for money when water rights have not been settled?

SENATOR WILLIAMS: If you have the growth you can do it.

CHAIRMAN TEALE: That's been proved before, whether that is desirable or not is another question.

SENATOR CHRISTENSEN: I would like to refer to what you just mentioned in connection with the new duties that have been given to the Water Commission, particularly in connection with the State water filings. Isn't it true that the Commission is confronted with this situation, that the Department of Water Resources has applied to the Commission for an approval or assignment or waiver of priority on these filings to carry out whatever particular projects they have been directed to do by the Legislature, isn't that correct?

MR. CARR: That is right, Senator.

SENATOR CHRISTENSEN: And the new duties of the Water Commission require that the Water Commission only grant such approval of assignment or waiver where the interest of the counties can be protected and that the counties under the Watershed Protection Act is under the Watershed Protection Law?

MR. CARR: That is one of the determinations we have to make.

SENATOR CHRISTENSEN: Isn't this true then that the Department

is under specific duty to go ahead and accomplish the purposes of all construction for which its been given money, obtained the priority and the Water Commission must depend upon the information it obtains from the Department which it is the applicant?

MR. CARR: Under our present setup Mr. Gleason is our engineering consultant and when we were confronted with this he did his very best to provide us an analysis along the lines we ask. As I said at the outset of my testimony Mr. Gleason, our engineering consultant is on the staff of the Director of the Water Resources and he has given I would say roughly 60 percent of his time working for the Commission and we are asking him to give us our opinion for the Commission and he works for the man who is making the application.

SENATOR CHRISTENSEN: How would you be in a position to give them advice or decisions on their applications if the only evidence before you is that presented by the applicant?

MR. CARR: In the hearings themselves we certainly have representatives of the counties and other people come before us and so we aren't entirely without technical assistance of the men they employ, either engineers or attorneys, who give their side of the case, but as far as the Commission itself having someone to dig into it, you have point.

SENATOR CHRISTENSEN: Is there any other agency financed by the State by other than the Department which presents any evidence in support of the position of the counties of origin?

MR. CARR: I think not.

SENATOR CHRISTENSEN: So the Department then is confronted with the duty, speaking of the applicant department, is confronted with the duty of protecting both the interest of the county of origin and also completing the project for which they seek the assignment?

MR. CARR: Yes. I would like to point out we are not entirely without help on that problem. For example, we had one given

us recently involving Plumas County. The County of Plumas employed engineering and legal assistance to present the County's case as against in this case people outside the county, and it seems there are pretty much in agreement with the State Department on this one issue. It could easily develop they would have to employ legal and engineering assistance to fight the State on their particular issue. We must rely on outside help.

SENATOR CHRISTENSEN: Isn't this true then. If the ultimate beneficiaries of the State water grant, whether it be embodied in Section 1106 or any other project presently contemplated, that the cost and technical skills provided in the presentation of the one element of that construction, that is the funds are provided for by the State while those whose interest may be adversely affected must provide out of their own funds?

MR. CARR: Unless I missed something I think you're right on that.

SENATOR CHRISTENSEN: And it applies certainly such as the determining body has very limited funds other than the dedication of its own members to assist both counties.

MR. CARR: Yes, and you must keep in mind it applies in re-organization, as was a part of the Department and may still be part of the Department but Senator Cobey since that Act you have given the Commission additional responsibility for that, taking it out of the Department and so these are some of the things that I am sure your Chairman is trying to find an answer to right away with employment of outside counsel.

SENATOR CHRISTENSEN: Do you believe the Commission in its action upon any application for the assignment of a water right or a waiver of a priority is going to be influenced in any way by the fact that the applicant is the Department of Water Resources?

MR. CARR: I think the Commission members have been able and will look at it objectively. They have two determinations to make, one, is this consistent with the overall California Water Plan, and does it protect the counties of origin in water they will need for their full development, and the men on the Commission will take all the evidence and treat the Department just as they would treat any other applicant for an assignment.

SENATOR CHRISTENSEN: Do you believe there exists a possible hazard, that the interests of the county of origin or of those areas protected under the Watershed Protection Law might be adversely affected by the fact the Commission has no independent assistance other than you referred to?

MR. CARR: I think if the Commission did have some independent assistance there would be greater protection against making a mistake. I think you as an attorney realize that if the other side doesn't have the technical backup, they don't have quite as good a case.

SENATOR CHRISTENSEN: One further question, now: Yesterday it appeared in the report of the Department, I believe it was on page 32 -- were you present, Mr. Carr?

MR. CARR: Yes; I was, Senator.

SENATOR CHRISTENSEN: Where in answer to the question, "Would you comment on the ability under present law of various local agencies to borrow from the State under Chapter 1752 and to contract for repayment of these loans?" This in in connection with the inability to pay or repay, and it is stated that the examination of requests revealed that certain of the acts

under which particular applicants were organized, such as the County Water District Act provided general authority for the agency to borrow money for district purposes, whereas other acts, such as the Irrigation District Act, did not. In other words, apparently there appears to exist in the organic law creating the particular entity, the irrigation district, a limitation upon borrowing that does not exist with reference to other applicants. Do you consider that technical limitation in the organic law as a basis for determining an inability to pay for the purpose of meeting that requirement?

MR. CARR: I think not. And that went on, you remember, as to the question whether the state should take the bonds from the district that did not have the broader powers. In my own personal opinion that would be an idle gesture. You either determine the risk is not too great and loan the money, or you don't, as far as I'm concerned, and I think most of the Commission members would feel the same way, and as far as taking bonds and then holding them with the idea that you might collect later on, I think this is a lot of paper work and red tape that doesn't amount to anything.

SENATOR CHRISTENSEN: I realize that is one suggestion that was made, but if there exists in the act creating the irrigation district itself a limitation placed there, presumably those who formed the district, upon borrowing, the applicant being that same district for a loan under the Davis-Grunsky Act, will you consider the fact they are so limited as one basis for determining that they are unable to repay? Make them eligible where they would not otherwise be eligible?

MR. CARR: Right or wrong, we don't consider them any different.

SENATOR CHRISTENSEN: The Commission apparently has

adopted generally the same position as the Department in connection with the priority to be given to new water development as distinguished from distribution systems. With reference now to that water which would be brought into an area in the event the Burns-Porter Act passes, and which is not there today, would that be regarded, in your opinion, or the opinion of the Commission, as a new water supply? Suppose water was brought in from the Feather River down to San Diego County to a terminal reservoir, which was not developed in the county. Would that be new water supply in the County of San Diego?

MR. CARR: Legally, I suppose you could say this was a new water supply. As a matter of policy, the Commission has said we would not make loans for distribution systems, and so under our present policy, we would not make a loan to San Diego to take water out of Perris Reservoir, but this is administrative on our part and may not be what the Legislature wants, but this is the best we could do with it in the absence of clarification.

SENATOR CHRISTENSEN: I assure you that is what certain members of the Legislature wanted. Whether all members of the Legislature wanted it --

MR. CARR: Senator Christensen, perhaps Mr. Fleharty could elaborate on this point a little bit. He's very closely associated with the League of Cities and some of the municipal distribution system problems, and I would like to have him just comment on what we are running into.

MR. GEORGE FLEHARTY: In addition to the loans that you mentioned, such as San Diego's and a number of others of the potential applicants, should distribution systems be encompassed within the scope of this particular program, a great number of cities within the State of California have apparently reached or

are very close to reaching their bonded ceiling, and these cities are very interested, if possible, to qualify under this program, and one of the great things we have tried to guard against, and I think have insisted upon in the program to date, at least from our standpoint, is that solely distribution systems be not eligible under the program at the present time.

SENATOR CHRISTENSEN: In other words, you receive enough benefit by bringing the water to them under the aqueduct without the one hundred thirty million dollars also being applicable to that?

MR. FLEHARTY: More mains and ditches.

SENATOR COBEY: Mr. Chairman?

CHAIRMAN TEALE: Senator Cobey.

SENATOR COBEY: First, I would like to request for the consideration of the Chairman that we obtain an opinion from the Legislative Counsel, which will be exhaustive in detail, that specifies what the borrowing powers are of these various public agencies that are covered by the Davis-Grunsky Act, because it seems to me that maybe we'll have some amendments to those various districts.

CHAIRMAN TEALE: I think that would tie with the request we made a few moments ago with regard to the borrowing capacities of the municipalities and limitations placed upon the period over which they can borrow, to make it rather a complete study.

MR. CARR: Mr. Chairman, there is one further point along the lines Senator Christensen was alluding to. We have the same basic problem existing in Southern California, regardless of whether they get their water from State facilities, we have a situation in a couple of instances, for example where water would come from the Colorado River through public

agency main lines. One would be an agricultural distribution system, the other would be a city distribution system. Neither of these are presently eligible under our rules, and of course, they are somewhat irritated with the Commission that we have taken this authority on because legally they feel they qualify.

SENATOR COBEY: As a matter of fact -- pardon me, Mr. Chairman, but just to back that up, I think that there is a problem of amendment of the Davis-Grunsky Act, because Section 12880(a) specifically mentions distribution of water. I think that this is something that requires legislative clarification.

Now, one further problem, and that is this: if the Burns-Porter Act is approved at the election in November and the source of funds then becomes the one hundred thirty million dollars specified in the Burns-Porter Act, and the amendment of the Davis-Grunsky Act thereafter will be subject to the overall limitations, will it not, and no amendment may be made to the law?

MR. CARR: That's right. I think Mr. Fleharty is of that opinion.

SENATOR COBEY: So any amendment proposed to the Davis-Grunsky Act after that date, if that even occurs, will have to be measured under that yardstick, as to whether or not that is a valid amendment?

CHAIRMAN TEALE: I would like to interrupt just a moment to introduce Senator Fisher from San Diego County, and welcome him to the committee, and although he has sixteen phone calls to make, I think he better stick around. We have been talking about San Diego County the last few minutes.

SENATOR FISHER: Maybe I ought to excuse myself.

MR. CARR: So there is no misunderstanding, the answer I gave on this, we said that although distribution systems are not ineligible, we set up this preference. As a practical

matter, as we consider these loans right now, we are not making any loans for distribution systems. If later on it appears that it can be done, we are in a position to change this administratively, but here's an area where I know a number of legislators are involved and we would welcome clarifications on this point.

CHAIRMAN TEALE: A question on that, Mr. Carr, and maybe Mr. Fleharty: In your declaration of policy, didn't you make provision for hardship cases, in which you can disregard your other policy considerations?

MR. CARR: That's right.

SENATOR COBEY: You have an escape clause, called "extreme departure"?

MR. CARR: Left the back door open. That is what we did.

CHAIRMAN TEALE: Senator Donnelly, do you have anything? Senator Rodda? Senator Murdy? No questions? Senator Cobey, any other questions?

SENATOR COBEY: No.

CHAIRMAN TEALE: I think that we will recess the committee until the hour of 1:30 this afternoon. Thank you very much.

(The Committee was thereupon recessed for the luncheon adjournment at 11:40 o'clock, a.m.)

FRIDAY, JUNE 24, 1960

1:45 O'CLOCK, P.M.

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CHAIRMAN TEALE: The meeting will come to order. The first witness we have this afternoon is Mr. Richard A. Smith, Chief Engineer of the Fallbrook Utility District. Mr. Smith?

MR. RICHARD A. SMITH: Do I understand the procedure that I am to read the questions and read my answers and stand by for questions?

CHAIRMAN TEALE: If you would, please.

MR. SMITH: The first question brought to us as a local witness: Please give a brief description of your project, including: a - An indication whether it would develop a new or additional water supply. b - The service area of the project immediately and ultimately. c - The relationship of the service area to service areas of other nearby agencies.

Answer: The Fallbrook Dam will be 168 feet high at its crest and 143 feet high at the spillway. It will be 700 feet long with approximately 1,166,000 cubic yards of fill. The spillway will be built to carry 126,000 cfs.

The dam will impound 35,000 acre-feet of water with a flooded surface covering 580 acres at spillway level. The project will develop 5000 acre-feet annually of presently wasted water.

Pumps and mains to deliver the water to the distribution system are an integral part of the project. Distribution storage and laterals, sterilization equipment and administrative facilities are also needed. The District has acquired the dam and reservoir lands at a cost of \$736,302.89.

The project will provide terminal storage and developed water to serve a portion of the supply to the 15,500 acres within the District. About 9000 acres are now developed and

and 4000 acres of land newly annexed into the district is suitable to avocado planting and residential development. It is contemplated that 21,000 acre-feet annually will be required for ultimate development within the district.

At this stage of development the Fallbrook Public Utility District takes 1200 acre-feet annually approximately from the Santa Margarita River and 9000 acre feet annually approximately from the San Diego County Water Authority, of which it is a member. Of this about 9000 acre-feet is used for irrigation. The total to be developed by the district from the Santa Margarita River is 6800 acre-feet annually which is only about one-third of the ultimate demand.

The Rainbow Municipal Water District to the east and south has some locally developed water from the San Luis Rey River. Camp Pendleton on the west has been using 2800 acre-feet annually of the water now passing the Fallbrook damsite. The district is bounded by Riverside County to the north.

The next question: Please give a brief statement of the reasons why the project cannot be fully financed locally.

Answer: The Fallbrook project cannot be locally financed because its rights to water from both the Santa Margarita and the Colorado River are under litigation. Should the Santa Margarita case be resolved favorably, local financing would still be very questionable because the district's economy depends upon agricultural use of water, most of which must be imported from the Colorado River or elsewhere. Agricultural returns are at an all-time low in Fallbrook and the outlook for cheap imported water is not bright.

No. 3: Does the Department's criteria of inability to finance cover your situation? Would you recommend any other or further definition?

Answer: The Department has indicated that this district

appears to be unable to finance, except under Public Law 984. An application is being prepared for presentation to the Bureau of Reclamation for a loan and grant from this source and all diligence is being exercised to procure federal funds. Obviously, however, the government will not loan money to Fallbrook to develop water to which the government claims title in an active lawsuit. With the assumption that disposition of the Santa Margarita lawsuit favorable to Fallbrook might be forthcoming, the Bureau of Reclamation has agreed to process the application with approval to be conditional upon the district's obtaining title to the water rights.

The Department has declared that the Fallbrook Public Utility District is eligible in all other respects to apply for funds under the Davis-Grunsky Act and that at such time as the obtaining of federal funds appears to the district to be beyond reasonable likelihood within a reasonable time, the district should initiate its request for funds from the State. This seems to be a sensible approach and no further definition is recommended.

No. 4: Do you agree with the Department's criteria for eligibility which sets at 25 per cent of the assessed valuation the direct and overlapping debt within the agency boundaries?

Answer: The present gross direct and overlapping debt of \$2,600,000 is 28.5 per cent of the district's \$9,115,600 assessed valuation. With the \$4,000,000 loan, and general obligation bonds in the amount of \$1,302,120 up to the district's bonding capacity, the overlapping debt would rise to \$7,900,000 or 86 per cent of the district's assessed valuation.

The Department has indicated that it would accept an

application from Fallbrook under these conditions were it not for the possible federal source. Of course we are pleased by this interpretation.

It would appear that an agency with less than 25 per cent of its valuation as overlapping debt would be hard pressed to show inability to finance through its own resources.

No. 5: Does your agency have any outstanding bonds, and in what amount? Does the agency have a debt limit?

Answer: The present outstanding indebtedness of the district consists of \$281,000 of general obligation bonds, together with term notes in the amount of \$240,000, making a total of \$521,000. The 20 per cent debt limit permits issue of approximately an additional \$1,302,120 in general obligation bonds. I might say these were intended to be issued as a part of the project.

CHAIRMAN TEALE: Pardon me. What is the total cost of your project?

MR. SMITH: Five and a half million.

CHAIRMAN TEALE: Five and a half million?

MR. SMITH: No. 6: Would you suggest any criterion for project desirability, in event priorities are established, such as contribution to economic development, dwindling water supplies from present sources, etc.?

Answer: A suggested order of water project desirability for the local assistance program follows:

- a - The development of new basic water supplies.
- b - A project's contribution to economic development.
- c - An existing project with dwindling water supplies from present sources.
- d - The urgency of need in the case of similar projects.
- e - Agencies needing financial assistance to combat

federal claims to waters granted under State permit.

f - Distribution facilities which are a necessary and integral part of a water development project.

No. 7: Do you agree that preference should be given to projects developing a new basic water supply?

Answer: Preference should be given to projects developing a new, basic water supply.

No. 8: Do you have any estimate of the future need; for instance, for the next 20 years, for projects in your district, county or particular area? Can you estimate the total cost of these, and the amount of State assistance which may be necessary?

Answer: There will be no additional need in this area. The Santa Margarita River is the only undeveloped source of new water in Southern California.

Should the purpose for which loans are to be made be expanded to include terminal storage and distribution system projects, of course the answer would be different.

Now, there were some additional questions asked to agencies, or to our agency because of our request for a grant.

The first one of these: Do we have any comment on the present limitation of State grants to those dam and reservoir costs properly allocated to recreation. Is this too restrictive in your opinion? Should State grants be available, for instance, for acquisition of surrounding land necessary to protect recreational values at the reservoir or for on shore development?

Answer: The present limitation of State grants to those dam and reservoir costs properly allocated to recreation seems to be reasonable and not too restrictive. The land acquired for a project should extend sufficiently to protect recreational values and would be part of the total cost. The grant under

present limitations would cover this increment of cost if the recreational and fish and wildlife benefits are large enough. If not, then the surrounding land acquisition cost would need to be borne from another source.

Onshore development for recreational purposes would not appear to warrant State grants. Access charges to those using the facilities should include their capital and operational costs.

What other State funds may be available for recreational development for your project or for similar ones? For instance, from the Wildlife Conservation Board?

Answer: Funds on a matching basis may be available from the State through the Wildlife Conservation Board. It is not anticipated that an arrangement could be made from this source until after the project has been placed into operation.

Except as provided under the Davis-Grunsky Act, no other State funds are available for recreational or fish or wildlife grants.

A general statement of the prospective recreational use of your project, and of demand for recreational opportunities in your area or throughout the State.

Answer? The Fallbrook Dam and Reservoir will provide a substantial addition to recreational facilities in Southern California. The population explosion and shrinking availability of sport fisheries, together with the trend to more money and leisure available to the average person is bringing increasing demand for recreational facilities within this area. A large fresh water lake one hour from San Diego and two hours drive from Los Angeles cannot fail to attract great numbers of recreations.

Recreational use of the Fallbrook Reservoir will be supervised by the Fallbrook Public Utility District under the direction of the State Department of Health. This will permit

fishing, boating, picnicking and hiking with the exclusion of any bodily contact with the water.

We did prepare some comments on questions that were asked of the Commission, if you would like to hear those?

CHAIRMAN TEALE: Yes; we would.

MR. SMITH: On the first question, I only answered part of this. The Commission and the State Department of Water Resources has established a joint policy giving priority to projects developing new basic water supplies -- and skipping on down, do you believe that any further priorities for other types of projects are desirable, for instance, where public health is involved? This is purely a local comment. The mere availability of water would not appear to alleviate any health hazards now existing in California. Water treatment facilities are closely related to domestic water distribution systems and should have the same low priority.

The second question, does the Commission have any views as to whether there should be a limit on the total cost of a project, as a part of eligibility standards? Should the local agency be required to put up a fixed amount or proportion of the project cost?

Our answer to that would be that the total project cost should be set at 8 or 10 million dollars and that no fixed proportion of local contribution should be required. We feel that this should be based on the merits of the case.

No. 3, the first part of that question, please comment on whether the State might loan money for feasibility reports for local projects. Our answer would be that the preparation of feasibility reports should be part of the agency's contribution, and loans should not be made for this.

No. 4, what should be included in the feasibility report? Why should secondary benefits be excluded in showing economic

justification? We feel secondary benefits should be included if it is necessary to show economic justification; otherwise, it is not necessary and no need to clutter the report with it.

We had no comment on questions five and six.

No. 7 I'll answer in two parts: To what extent should the local agencies have to exhaust other sources of financing? What is sufficiency of proof of inability to finance? Going to the next page for the answer to the first part of it, local agencies should not be required to obtain private financing if the required interest rate is more than five per cent, even if the project can be justified with a higher interest rate. A liberal interpretation is urged in cases where delays or lack of funds occur in federal loan applications.

Should further development or growth be taken into account in determining availability to use water and ability to pay? Our answer to that would be yes.

And what degree of risk is the State justified in taking in making loans on basis of future economic development instead of present financial resources? We feel that the State should be somewhat less than prudent in its loans based upon anticipated economic development.

No answer to No. 8.

No. 9, would you comment on the possibility of continuing the present fifteen million dollar fund as a revolving fund, and of constituting the one hundred thirty million dollar fund proposed in the Burns-Porter Act as a revolving fund? The present fifteen million dollars should be continued as a revolving fund. Repayments to loans from the one hundred thirty million dollars from the Burns-Porter Act should be used for bond repayment. The source of funds to replace granted funds should be sought.

No. 10, would you comment on the relationship of the

State loan program with that of the federal government under Public Law 984? A State loan should be automatic for an agency showing steady urban growth, that has qualified for a federal loan justified by agricultural use of the water for which it develops that no federal funds are appropriated.

No. 11, should a limit be placed on a portion of the State loan funds that could be disbursed for grants? Our answer to that would be no, that they should be limited only to the justification by recreational and fishing use of the project.

CHAIRMAN TEALE: Thank you for coming here and giving us your answers. They are very complete.

I would like to ask you, you seem to feel that the Fallbrook project would develop a recreational potential as it occurs. Do you have any thoughts on the degree to which bodily contact should be allowed in the reservoir, acknowledging the fact the present law prohibits it? The State Health Department frowns on these things, of course.

MR. SMITH: Well, yes, speaking as an engineer, I don't think that bodily contact should be allowed in the water. We are actually on two sides of the fence here. We would like to please the people in our area by making available recreational facilities. At the same time, as a district, we have a responsibility to deliver water that is clean and pure, so we must take every precaution, and we are right alongside the Health Department in wanting the water to have the necessary protection.

CHAIRMAN TEALE: You anticipate good filtering and purification methods?

MR. SMITH: Ultimately, yes. Now, at this time, we are using ninety per cent of the water for trees, which don't care if water is filtered or not. The ten per cent domestic use couldn't cover the cost of filtration. The indication I have

had from the Health Department was that with dual chloination we would be permitted to use the facilities for recreational use without bodily contact, and provided that we assume ultimately we will have to have filtration.

CHAIRMAN TEALE: Do you have a constant stream flow below the dam, or is that one of these things where you pick up flood waters?

MR. SMITH: Depends on what you use to define stream flow. There is always water flowing at the damsite, water in the summer.

CHAIRMAN TEALE: I was thinking about how much of the stream above the damsite, above your lake will have water in it? Will it be an attractive nuisance, as far as attracting people who use it with bodily contact?

MR. SMITH: Not too far above the land which has been acquired by the district for impounding water, the river doesn't flow continually. It is an in and out stream. The water flows underground down to Temecula during most of the time, and then it appears on the surface only because of the sands in the river bottom which are very shallow. There is a hard rock bottom to the river. I don't think this would be a serious problem.

CHAIRMAN TEALE: Senator Murdy?

SENATOR MURDY: Do you have any treatment plant where the water is filtered before it is used for domestic purposes?

MR. SMITH: At present we are chlorinating the water only.

SENATOR MURDY: No filtration?

MR. SMITH: No filtration plant at all.

SENATOR MURDY: Just makes the water palatable for people to drink?

MR. SMITH: Well, they are sterilized, let me hasten to add.

CHAIRMAN TEALE: Senator Cobey?

SENATOR COBEY: This is a terminal reservoir? There is no treatment of the water after it leaves there? Where is the chlorination?

MR. SMITH: The chlorination is on the line that leads from the pumps in the streambed at this time. The proposed project would have dual chlorination; that is, the chlorine would be applied as the water leaves the reservoir, and then into the pipe line some distance beyond that, to meet the requirements of the Health Department.

SENATOR COBEY: And it is still the opinion of the health experts that with this dual chlorination you can't have any bodily contact?

MR. SMITH: That's correct.

SENATOR COBEY: Or activities in the reservoir itself? That concerns me somewhat, because I understand up at Pardee now, of course, there is the same restriction, which means that the reservoir is only used for fishing, and the greater recreational use could obviously be made of it if bodily contact activities were permitted, but the health experts still feel, notwithstanding dual chlorination after it leaves there, the public health matters can't permit bodily contact.

MR. SMITH: I have been lead to feel the only reason this would be permitted with simply dual chlorination and without filtration in our case is because the point of use of the water is for irrigation.

SENATOR COBEY: Most of it is used for irrigation?

MR. SMITH: Yes. Now, if we had nothing but domestic use, I'm sure the Health Department would require dual chlorination and filtration, and no bodily contact in order to permit recreational use.

SHENATOR COBEY: What about the City of San Diego's

reservoir? I understand there is a widespread recreation use made of that?

MR. SMITH: My understanding of the city's use there -- Senator Fisher might help me with this -- is that no bodily contact is permitted and filtration of all the water is performed?

SENATOR FISHER: That's correct.

SENATOR COBEY: So in other words, the only recreational use made on it is fishing?

SENATOR FISHER: That's correct.

SENATOR MILLER: Mr. Chairman?

CHAIRMAN TEALE: Senator Miller.

SENATOR MILLER: Why do you chlorinate the water?

MR. SMITH: The water that is now being taken from the Santa Margarita flows through a populated area and has to be sterilized because a certain portion of the water is used for domestic purposes. If you understand our system, it is all a pressure system. We operate under pressure. Every service is a domestic metered type service, and there is no differentiation between domestic and irrigation water.

SENATOR MILLER: What does the chlorine do?

MR. SMITH: The chlorine sterilizes, or it an algicide or a germicide.

SENATOR MILLER: What does that mean?

SENATOR COBEY: It kills the bugs.

MR. SMITH: Yes; it kills the bugs.

SENATOR MILLER: All of them?

MR. SMITH: Yes. We take regular tests of the water and bacteriological samples every week to determine if the coliform groups are in a number that would indicate contamination of the water.

SENATOR MILLER: Then if it kills all the bugs, why do

you worry that someone swims in it?

MR. SMITH: I ought to have some of the Health Department officials here to help me with this. Please understand, I am on their side of it. I believe this is very necessary. It is a matter of probability and water quality for human consumption is a very delicate subject.

SENATOR MILLER: What are they worried about?

MR. SMITH: Human -- I don't want to use any --

SENATOR MILLER: Talking about urine; is that what you're talking about?

MR. SMITH: Yes.

SENATOR MILLER: People are going in there to swim?

MR. SMITH: All right. But there are bacteria of human origin which are very difficult to sterilize or to kill, and the evidence is not complete that mere single chlorination, with equipment that is subject to mechanical failure and subject to human error or is infallible --

SENATOR MILLER: Then you don't know whether you kill all the bugs or not then, do you? You don't know what is going on in the dark of the night, do you?

MR. SMITH: I think you're having fun with me.

SENATOR MILLER: No; I'm not. No; I'm not. I just get a little exercise, sometimes people say they do something and they don't do it. I think somebody has been teasing you, saying this kills all bugs. It doesn't kill all of them, because I'm sure somebody urinates in your spring sooner or later.

MR. SMITH: Well, if they do, they do it without our knowledge --

SENATOR MILLER: I suggest that doesn't make the water any better because you don't know about it. Just makes you think it's better.

SENATOR COBEY: It gives it a certain flavor, though.

MR. SMITH: We have to use a reasonable approach to protect the health and safety of the people.

SENATOR MILLER: No; what I was trying to get at, I wasn't trying to have fun with you, the thing I was concerned about is if the chlorination program does kill all the bacteria and you are merely going to add more bacteria or the possibility of more bacteria by having swimmers in the lake, I couldn't see where it would hurt, but apparently there is a different type of bacteria that would not be killed by the present process. Then you would obviously have to do something else, that is what I'm concerned about.

MR. SMITH: Actually, when you get into studies of these bugs we are talking about, it resolves itself to a statistical operation: What is the probability that one of the bugs are going to get by the chlorination plant? There is the probability with single chlorination, which leads the Health Department to require that that new operation, such as we are proposing, they would require not just a single application of chlorine, but a dual application.

SENATOR MILLER: What do they do in Washington, D. C., by the way?

MR. SMITH: It has never --

SENATOR MILLER: I spent most of the war years in Washington, D. C., and I found most of that water was used three or four or five times before we ever got a shot at it. What do they do there? Single chlorination? Do you know, Bill?

MR. SMITH: I'm sure they filter the water.

SENATOR MILLER: I would like to see what Mr. O'Connell has to say on this one.

MR. WILLIAM J. O'CONNELL: By and large on the Potomac

supply, there are pre-settling, coagulating and filtration plants, and usually dual chlorination.

SENATOR MILLER: Where is this, Bill?

MR. O'CONNELL: On any of the Potomac supplies, the Washington supplies.

SENATOR MILLER: What do they do here on the Fallbrook? Do the same?

MR. O'CONNELL: I'm not familiar with the Fallbrook installation, but from what has been discussed it would appear to be single chlorination, which is the common treatment used in California, as for example, by the City of San Francisco.

SENATOR COBEY: It has double now, hasn't it?

MR. O'CONNELL: Proposing double.

SENATOR COBEY: Proposing double chlorination?

MR. O'CONNELL: Yes; presently single. Generally in most of the surface supplies in California, they are subject to single chlorination.

SENATOR MILLER: If they did the double chlorination they are anticipating trouble; is that right?

MR. O'CONNELL: Yes.

SENATOR MILLER: What would that do?

MR. O'CONNELL: This provides the protection against the failure of equipment. Now, the organisms that the witness is talking about, they are virus organisms, and some of the resistant organisms. I should let the committee know, after a considerable familiarity in this area, I think this danger of contact in sports, in mountain reservoirs, for example, like those that are feeding into common distribution systems, is rather exaggerated.

CHAIRMAN TEALE: Does that answer your question?

SENATOR MILLER: That's all I wish.

SENATOR FISHER: I wonder if I might pursue this as to

either Mr. Smith or Mr. O'Connell?

CHAIRMAN TEALE: Senator Fisher.

SENATOR FISHER: Is it true the chlorination merely brings down the bacterial count below what is considered a safe level? When we talk about eliminating bacteria, we are not talking about eliminating all bacteria, but bringing it down below a given count; is that not true?

MR. O'CONNELL: Senator Fisher, with the double high-residual chlorination now being commonly used throughout the United States, the question still remains whether some of the systic amoeba will pass through, or viruses, but even with substantial chlorination not being used in all the eastern cities, there is no evidence of any significant pathogenic organisms getting through.

SENATOR FISHER: But he was talking about the coliform count and that. The Health Department just requires it to be below a given level; isn't this correct?

MR. SMITH: The coliform groups tested aren't actually virus or pathogenic bacteria. These are an easier to identify group.

SENATOR FISHER: That might be evidence of the others also?

MR. SMITH: That the others might be present.

SENATOR FISHER: I see.

MR. SMITH: If large quantities of the particular coliform tested for are present, this would indicate the possibility that the pathogenic bacteria are.

SENATOR FISHER: Would be associated in a given ratio with the pathogenic bacteria?

MR. SMITH: That's correct. It has been established in the absence of the type tested, the others will be absent as well, you see.

SENATOR FISHER: So then you bring the coliform down below what is considered a safe level, and I assume there is some level set for that, that you don't find an entire elimination, or that is not required?

MR. SMITH: By a level, I would interpret that to mean occasionally we may get what we call a bad sample. If we find a bad sample, we do something about it. If we get consistent bad samples, we have reason to suspect there is a source of contamination that might endanger human life.

SENATOR FISHER: Now, in a body of water of that size, the amount of contamination, would that have anything to do with the amount of contamination within the body, or would that have something to do with the effectiveness of any single chlorination or double chlorination or filtration in conjunction with these? Would it have anything to do with the ability to bring that coliform count down below what is considered the safe level?

MR. SMITH: I think there is a direct cause and effect relationship here, and the greater the amount of contamination, the greater the likelihood of something getting past whatever source of protection you are giving to it. If you would like to speak to that, please feel free to do it.

MR. O'CONNELL: Senator Fisher, in general the efficiency of chlorination is primarily related to the turbidity and the total organic content of the water supply. For example, if you take a river like the Illinois River, which comes from land with a high level of organic matter, as some of the eastern rivers are, or the Neosha River in Kansas, for example, then the efficiency of chlorination is reduced not due to the presence of organisms, but due to the presence of other organic and inorganic matter that will not be solved by chlorination. On the other hand, if you take water --

SENATOR FISHER: This is why maybe the filtration adds to the effectiveness of chlorination?

MR. O'CONNELL: That's correct. Like you take the water of the Upper Tuolumne, the high quality of the Upper Tuolumne is due to the fact there is very little turbidity and almost no organic matter. The efficiency of chlorination, particularly of high-residual chlorinates used, is extremely high.

CHAIRMAN TEAL: Senator Fisher, up in the mountains we use a filter to take out the big chunks and let the vitamins through.

I think we have discussed this sufficiently. Senator Miller?

SENATOR MILLER: All right. I was just going to ask Mr. O'Connell what they do in Rock Slough. I know that water is used to bathe in a little bit further upstream.

MR. O'CONNELL: Well, of course, Rock Slough takes off -- that is your water supply?

SENATOR MILLER: Yes; that is the water I drink. That's why I'm concerned.

MR. O'CONNELL: Rock Slough takes off of one of the few areas in the State of California where there is still evidence of endemic typhoid, and it is then passed through the communities in Contra Costa County, Oakley Filter Plant, Pittsburgh Filter Plant, the California Water Service Plant, the Martinez Plant and the Bureau of Reclamation water is used directly for irrigation within the City of Antioch and in that environ.

SENATOR MILLER: Do they do any more treatment?

MR. O'CONNELL: The Bureau of Reclamation gives no treatment whatsoever to that water.

SENATOR MILLER: I know that those people do to my supply that which you are afraid they are going to do to yours. I'm positive of that.

So it seems to me, Mr. Chairman, there is a serious question but -- I'm not trying to attack this man's judgment, but there is a serious question about whether you can bathe in these water supplies or you can't. We don't seem to be coming off the hooks anyway.

CHAIRMAN TEALE: The Department of Public Health is presently making a study, a comparative study of water quality in eighteen reservoirs in the State. They are taking six that have no use, and six, of which Pardee is representative, that have restricted use but no bodily contact; and six that have unrestricted use, including all sorts of bodily contact sports, and they are sampling these on a regular basis and they are determining what effect sports have in contaminating them with organic or inorganic contaminants and their effect on the quality of water as it would affect its use for domestic use. We expect to have that report back by the first of January.

SENATOR MILLER: Do they permit boating on any of these?

CHAIRMAN TEALE: Yes. They are taking eighteen representative reservoirs, divided into three categories: no use, restricted use and full use.

SENATOR MILLER: No use means no boating?

CHAIRMAN TEALE: No nothing.

SENATOR MILLER: Restricted use means boating and no swimming?

CHAIRMAN TEALE: That's right.

SENATOR MILLER: The other uses, shoot the works?

CHAIRMAN TEALE: The other use, such as Turlock Lake, Woodbridge Reservoir at Lodi, and Folsom Lake. Folsom is one of these reservoirs being studied, and it has the heaviest use of any reservoir in the State today.

SENATOR MILLER: Thank you.

CHAIRMAN TEALE: Now, are there any questions of Mr. Smith? I would like to apologize, Mr. Smith. We got off the question a little bit, but this is a subject that was very dear to the hearts of all the committee members, pro and con. Are there any questions now of Mr. Smith in reference to the subject matter of his presentation? Senator Williams?

SENATOR WILLIAMS: Mr. Smith, Is the Fallbrook-Lippincott Project the one that is involved?

MR. SMITH: That is identified as the Lippincott site. I think there were four sites on the Santa Margarita River investigated by Bulletin 57 of the State Department.

SENATOR WILLIAMS: I am looking at a sheet here called "Table No. 1" which was presented yesterday, and it says "Local projects that might require State financial assistance in the near future". Now, is that the one we are talking about?

MR. SMITH: Yes, sir.

SENATOR WILLIAMS: Well, under this table here, you are actually going to develop 5,000 new acre-feet of water; is that right?

MR. SMITH: That is on a net safe yield, annual basis.

SENATOR WILLIAMS: And the estimated capital cost is five and a half million dollars?

MR. SMITH: Yes, sir.

SENATOR WILLIAMS: It is eleven hundred dollars an acre-foot? That is what you are talking about, is it?

MR. SMITH: Capital cost, yes, sir. I might say that --

SENATOR FISHER: Expensive down our way, Senator.

SENATOR WILLIAMS: You're not kidding.

MR. SMITH: I might say in the feasibility report, which is under preparation for submission to the Bureau of Reclamation, it is indicated the cost of this water to be paid back over a forty-year period would be fifty-five dollars an acre-foot.

developed into Fallbrook.

SENATOR WILLIAMS: How much is your land worth down there? You're going to put a mortgage on it of eleven hundred dollars an acre. How much is it worth an acre down there?

MR. SMITH: Most of the land is suitable for living and developing crops on. Sells between fifteen hundred and two thousand dollars an acre.

SENATOR WILLIAMS: As I understand your statement here, you have got nine thousand acres are now developed, four thousand acres of land newly annexed in the district suitable for avocado planting and residential development; is that right?

MR. SMITH: Yes, sir.

SENATOR WILLIAMS: One other question I had here: Do you anticipate you are going to get a million two hundred thousand from the Federal Small Loan Projects Act?

MR. SMITH: I think the million two hundred thousand, if I'm with you, is the remainder of our general obligation bond capacity. From the Federal Small Projects Act, we hope to be able to get four million eight hundred-some thousand dollars.

SENATOR WILLIAMS: Now, I'm looking at this sheet called Table 2, which was presented at the same time as the Table 1 sheet. It says, "Estimated funds necessary", and funds other than State local assistance, and it has this Fallbrook-Lippincott for a million two hundred thousand, and says, "Source of funds, Federal Small Projects". Now, is that part of the five and a half million or is this over and above that?

MR. SMITH: I haven't seen the sheet you are looking at. Perhaps we might have some help from the Department of Water

Resources?

SENATOR WILLIAMS: I think the Department of Water Resources gave us this sheet to give us some information.

CHAIRMAN TEALE: Do we have someone here from the Department?

SENATOR FISHER: While he is coming up, I wonder if I can ask a question here?

MR. ROBERT EILAND: Mr. Chairman, my name is Robert Eiland. I don't have the sheet in question, but if the sheet says that funds from other sources would only be one million two hundred thousand, then it's quite in error, because the Federal Small Reclamation Projects Act does permit loans for projects that are primarily irrigation up to a maximum of five million dollars, so that I would say the sheet then would appear to be in error.

SENATOR WILLIAMS: Well, that is something I guess you could check out with the Department or whoever gave us this sheet. I think the Department of Water Resources gave us this sheet.

CHAIRMAN TEAL: I would think, Senator, perhaps they are referring to funds available, and then the balance of the unavailable funds would come from other sources, because in the statement he said the balance of the bonding capacity was approximately one million three hundred thousand.

MR. SMITH: I might say the difference there, there has been a change, we paid off some of our bonds and we have an additional bonding capacity available at this time.

SENATOR WILLIAMS: That must be, then, but this just says, "From sources other than State financial assistance program" and then it gives the source from which this million two hundred thousand is to come from, and says "Federal Small Projects". That is all I have, Mr. Chairman.

CHAIRMAN TEALE: I would like to ask Mr. Smith, if the only source of funds you had were your remaining bonding capacity, could you do anything with the project down there?

MR. SMITH: In order to justify itself, even at \$55.00 an acre-foot, we would have to build the whole project.

CHAIRMAN TEALE: You would have to build the entire project to make it economically desirable or feasible?

MR. SMITH: Right.

CHAIRMAN TEALE: Then you couldn't do anything with your balance of your bonding capacity?

MR. SMITH: No, sir.

CHAIRMAN TEALE: Senator Fisher, do you have another question?

SENATOR FISHER: I wanted to ask what water is costing now, not only the acre-foot price, but the tax put on top of it?

MR. SMITH: Speaking from memory for the last year, my studies indicate that in our district, the amount of money actually paid for water was \$40.00 an acre-foot, for metered water, and \$15.00 an acre-foot for taxes, making a total of, coincidentally, the same \$55.00 an acre-foot figure.

SENATOR FISHER: \$55.00 an acre-foot?

MR. SMITH: That is what the people have actually been paying for water.

CHAIRMAN TEALE: Senator Cobey:

SENATOR COBEY: This is a slight question of arithmetic: I notice that this project is designed to develop 5,000 acre-feet of water that is currently being wasted on the Santa Margarita River; is that right?

MR. SMITH: Yes, sir.

SENATOR COBEY: At the present time, according to your statement, you are taking 1200 acre-feet, so the total of that

is 6200, and I notice that you intend to develop another 600 acre-feet. Where does the other 600 acre-feet come from?

MR. SMITH: I'm glad to explain that. The Fallbrook District operates under a permit to divert two and a half second-feet from the Santa Margarita, which would add up to about 1800 acre-feet a year. We consider that water presently developed, even though at the present time with our present facilities --

SENATOR COBEY: You are taking twelve?

MR. SMITH: We are taking twelve of the eighteen. When water is available in the stream flow, it is raining on the avocado trees too, and we don't have any place to put the water. If we have a dam to carry that over, we can increase that 1200 up to the full 1800.

SENATOR COBEY: In other words, if you can store it. If you have no demand you lose it?

MR. SMITH: That's right.

SENATOR COBEY: With storage facilities you can keep it and take care of you at a subsequent time?

MR. SMITH: That's right.

CHAIRMAN TEALE: Any further questions? Thank you very much, Mr. Smith.

SENATOR COBEY: May I ask one question -- pardon me. Where do you stand on this litigation now?

MR. SMITH: That is a legal question. It is my --

SENATOR COBEY: Well, just what is the status, that's all I'm asking.

MR. SMITH: They are still taking evidence, and the evidence is almost complete, and we are hoping we will have a decision later this year.

SENATOR COBEY: This is in the Federal District Court in San Diego?

MR. SMITH: Yes, sir.

SENATOR FISHER: The Federal Master is still taking evidence on the individual land owners?

MR. SMITH: I talked to him about a month ago, and he told me he only had another week's work at that time, unless he had other assignments given to him.

CHAIRMAN TEALE: I want to thank you again for taking time to come and help us with our problems.

The next witness I had is Mrs. Margaret K. Sylva, Director of Tuolumne County Water District No. 2, and she has sent word that she is unable to be here because of ill health today, so our last witness is Loran S. Bunte, Chief Engineer of the Monterey County Flood Control and Water Conservation District. Mr. Bunte?

Proceed.

MR. LORAN S. BUNTE: This is a statement of the Monterey County Flood Control and Water Conservation District.

The Monterey County Flood Control and Water Conservation District was formed by State Statute, Chapter 699, Statutes of 1947. The district encompasses the entire county of Monterey. Zones are formed within the district covering lands benefited by a specific project to raise tax monies to pay for projects. At the present time there are six zones established.

Zone 2 of the district encompasses 240,000 acres within the Salinas Valley and covers the valley floor from Castroville to San Ardo. Zone 2 bonded itself for seven million dollars to construct the recently completed Nacimiento Dam and Reservoir. This project was built entirely with local funds without either Federal or State aid.

The reservoir has a capacity of 350,000 acre-feet of which 10,000 acre-feet is reserved for a minimum pool for

recreation and preservation of fish life, 190,000 acre-feet are reserved for water conservation and 150,000 acre-feet for flood control. Flood water is stored during the winter and released down the channels of the Nacimientos and Salinas Rivers for percolation into the underground basin during the summer. All water used in the Salinas Valley is supplied by privately owned wells pumping from the underground storage basin.

The proposed San Antonio Dam will develop a new water supply on another major tributary of the Salinas River. It is planned to finance this project entirely with local funds. Estimated cost is expected to be between eight and twelve million dollars. At this time it is estimated that the total capacity of the San Antonio Project will be about 300,000 acre-feet, which includes a 20,000 acre-foot minimum pool reserved for recreation and propagation of fish life.

The Monterey County Flood Control and Water Conservation District has applied for, in accordance with the provisions of the Davis-Grunsky Act, a grant of \$300,000 for recreation and the preservation of fish and wildlife in the San Antonio Project.

I have been asked to comment on the following specific questions submitted by Mr. Lapham, your Staff Director.

1. Any comment on the present limitation of State grants to those dam and reservoir costs properly allocated to recreation. Is this too restrictive in your opinion? Should State grants be available, for instance, for acquisition of surrounding land necessary to protect recreational values at the reservoir, or for on-shore development?

Comment:

If a reservoir is constructed with local funds and the recreational value is statewide or use is primarily by those

from outside the financing district, then the State in our opinion should, upon request and study, furnish funds to provide basic recreational facilities such as access roads, boat launching ramps, sanitary facilities and drinking water, and additional lands that would not ordinarily be purchased.

2. What other State funds may be available for recreational development for your project or for similar ones?

For instance, from the Wildlife Conservation Board?

Comment:

The State Wildlife Conservation Board approved a grant of \$238,500 for construction of concrete launching ramps and access road and parking lot at the Nacimiento Reservoir. The district plans to apply for construction of similar facilities from the Wildlife Conservation Board on the San Antonio Project.

3. A general statement of the prospective recreational use of your project, and of demand for recreational opportunities in your area or throughout the State.

Comment:

Prospective recreational use of present and future aquatic facilities of the central coastal area of California can best be illustrated by the three-year history of Nacimiento Reservoir.

Located near the Monterey-San Luis Obispo County line, the lake is within 200 miles of approximately 7,000,000 potential users. Over sixty per cent of visitors to Nacimiento Reservoir are from the San Joaquin Valley and south of Santa Barbara, an average drive of 150 miles.

Visitor use of this reservoir has doubled each year with an anticipated use of 350,000 visitor days during 1960. Projecting these figures along with the expanding population, higher living standards, and greater leisure time, an estimate of 1,000,000 visitor days shall be spent at Nacimiento Reservoir.

voir in the year 1967. As an example, last Memorial Day weekend it is estimated that there were over 35,000 people utilizing Nacimiento Reservoir. Approximately ninety per cent of these people were from outside the financing district.

The utilization of the proposed San Antonio Reservoir for recreation shall add to, rather than detract from, the use of present and proposed recreational facilities of Nacimiento Reservoir. The attraction of two large, centrally located lakes within five miles of each other, shall create one of the largest and most popular recreational areas in the State.

It is planned that the recreational development of both Nacimiento and San Antonio Reservoirs be under the guidance of this district. An overall policy has been established to develop the recreational potential of both reservoirs as soon as financially feasible.

This development will be in accordance with the overall master plan for recreational facilities now being prepared and shall offer the people of the State of California a complete, efficiently operated and diversified aquatic recreational facility for their enjoyment.

CHAIRMAN TEALE: Thank you, Mr. Bunte.

I would like to ask you one question about your statement on the first page: You stated that the project was built entirely with local funds, without either Federal or State aid. You are referring now to this Nacimiento Reservoir which is above Paso Robles; is that correct, just for orientation?

MR. BUNTE: That's correct.

CHAIRMAN TEALE: You have a hundred and fifty thousand acre-feet of flood control capacity in the reservoir. Was there any Federal Flood Control money in that?

MR. BUNTE: No; there was not.

CHAIRMAN TEALE: There was no State Flood Control money?

MR. BUNTE: There is no State money either.

CHAIRMAN TEALE: Does anyone else have any questions of the witness? Senator Christensen?

SENATOR CHRISTENSEN: In connection with page 2, it is stated that the State Wildlife Conservation Board, in connection with Nacimiento Reservoir, approved a grant of \$238,000. That has already been paid and the ramps constructed?

MR. BUNTE: About half of the ramps have been constructed. The water level last year was about half, or the reservoir was about half full, so we were only able to construct about half of them.

SENATOR CHRISTENSEN: Funds have been committed?

MR. BUNTE: Yes.

SENATOR CHRISTENSEN: And it is proposed in connection with the new dam, the San Antonio Dam, to apply for a like amount?

MR. BUNTE: Something on that order, yes.

SENATOR CHRISTENSEN: You realize that there is only \$750,000 in the fund?

MR. BUNTE: Yes.

SENATOR CHRISTENSEN: Approximately a third of the fund each year will go, then, to these two dams?

MR. BUNTE: Well, that would be true, yes.

SENATOR COBEY: Depends on how many years it takes.

SENATOR CHRISTENSEN: In other words, in addition to that, the district is going to build the entire dam at its own cost, and apply for \$300,000 under the Grunsky Act?

MR. BUNTE: That's correct.

SENATOR CHRISTENSEN: That is in addition to what funds are anticipated will be obtained from the Wildlife Conservation Board?

MR. BUNTE: Yes. We have not made formal application to the Wildlife Conservation Board because we are now in the process of developing a master plan, and from this we will be able to get some cost estimates and so forth.

SENATOR CHRISTENSEN: These will be for on-shore facilities primarily, access roads, ramps?

MR. BUNTE: Be primarily launching ramps and access roads to get to them.

SENATOR CHRISTENSEN: If I follow your figures correctly, that will be some \$538,000 to be obtained either from the Wildlife Conservation Board or under the Grunsky Act?

MR. BUNTE: Yes.

SENATOR CHRISTENSEN: What is the total estimated cost of these facilities at the San Antonio Dam?

MR. BUNTE: I cannot give you a definite answer at this time. As I say, we are in the process now of making a master plan of development, but the overall capital outlay will be considerably more than that.

SENATOR COBEY: What was the cost of the dam?

MR. BUNTE: The total cost of the project would be between eight and twelve million dollars.

SENATOR CHRISTENSEN: In other words, this would be approximately, oh, five hundred-some thousand dollars would be just for this type of recreational development?

MR. BUNTE: Yes.

SENATOR CHRISTENSEN: The district has found no difficulty in obtaining the eight to twelve million dollars to finance the project from other sources?

MR. BUNTE: We have not floated the bond issue as yet. We are in the process, will be in two weeks making the foundation explorations, and we will expect to get to a bond issue in '61 sometime.

SENATOR CHRISTENSEN: The application has already been made and approved, has it not, for this \$300,000 grant under the Grunsky Bill?

MR. BUNTE: I think the preliminary application has been made, and we have been declared eligible, and we are in the process now of making our feasibility report to submit under the formal application.

SENATOR CHRISTENSEN: The eligibility has been found both by the Department and the Commission?

MR. BUNTE: Right.

CHAIRMAN TEALE: Senator Johnson?

SENATOR JOHNSON: I happen to be a member of the Wildlife Conservation Board, and I am just wondering, how are you going to justify the expenditure of another \$300,000 in addition to that \$238,000? We were assured the 238,000 would take care of everything at Nacimientos, or whatever you call it.

MR. BUNTE: We believe from our experience at Nacimientos the use will be such that we can justify the expenditure of these funds, especially since the nature of the use we are getting at Nacimientos Reservoir, where over sixty per cent --

SENATOR JOHNSON: I'm speaking just as one of the Wildlife Conservation Board Advisory Committee, I think we have been a Santa Claus, and if I can stop a lot of this kind of spending, I'm going to do it.

MR. BUNTE: We are faced with this problem, Senator: Having built the project with local funds --

SENATOR JOHNSON: I'm well aware of that. I mean this recreational area, we were definitely advised on that Nacimientos, or whatever it is, \$250,000 would do it. We were on the ground, I have been over it several times, and we were assured that would take care of it. I am certainly not going to go for another 250

and an additional 300,000 to put a lot of super-doooper stuff on there.

SENATOR COBEY: This is another reservoir.

MR. BUNTE: This is another reservoir entirely.

SENATOR JOHNSON: He's asking for this additional money.

SENATOR COBEY: No; this is for the San Antonio.

SENATOR JOHNSON: I'm taking the two together.

SENATOR MILLER: Mr. Chairman?

CHAIRMAN TEALE: Senator Miller.

SENATOR MILLER: You started to say something about "sixty per cent". Would you continue with that, please?

MR. BUNTE: Yes. We have found from our estimates of use down there, that over sixty per cent of the people drive more than a hundred and fifty miles to utilize the Nacimiento Reservoir.

SENATOR MILLER: Therefore, they are not local people; is that right?

MR. BUNTE: That is correct.

SENATOR MILLER: Now, are you concerned about these sixty per cent? Are you interested in having them there?

MR. BUNTE: As a matter of fact, we are in the red about \$90,000 of local funds right now just trying to provide facilities for these people that come in there.

SENATOR MILLER: Well, now, do you want them or don't you want them?

MR. BUNTE: Well, I don't see how you can keep them out.

SENATOR MILLER: There are ways you can keep them out. The county owns the project, and you can sure keep them out.

I am kind of interested in your argument about the fact people come from over a hundred and fifty miles, and as I understood your previous statement, therefore, you think the State of California should pay for them, and I sort of maintain these people, if they come from 5,000 miles, have a very definite

value to your community. Just because they come a hundred and fifty miles, I question whether it is justification to say, "Well, somebody else should pay for it". If you don't want those people there, you can keep them out real easy. You also have apparently a facility that takes care of much of your local need; is that right?

MR. BUNTE: Yes. Actually, the local use, or by people within the district is only about ten per cent or less.

SENATOR MILLER: As a matter of fact, you couldn't operate a first class facility down there with just your local people, could you?

MR. BUNTE: No; not very well.

SENATOR MILLER: It would be questionable at this time?

MR. BUNTE: Yes; that's right. We have kind of a peculiar situation in our case. The reservoir is constructed in San Luis Obispo County, which is only eighteen miles from Paso Robles, and there are no cities close to the Nacimiento that actually benefit by all these people coming in and using the facility.

SENATOR MILLER: Is that county benefit? You have a countywide district, as I read your first page.

MR. BUNTE: Yes. Of course, Paso Robles is in San Luis Obispo and not in Monterey County.

SENATOR MILLER: The district you are talking about is the entire County of Monterey?

MR. BUNTE: The district covers the whole county, but this particular zone just covers the Salinas Valley.

CHAIRMAN TEALE: The situation is, their district is in one county and owns the reservoir in a second county, and serves people from other counties.

SENATOR MILLER: But there is no requirement in order to have a reservoir you have to have recreational facilities, is there?

CHAIRMAN TEALE: That's right.

SENATOR MILLER: I mean, I don't understand this business about saying "You guys pay for it because it benefits everybody else and they shouldn't because it benefits other people?" Why are they concerned about it if it only benefits other people? I think it benefits them. I know in my district, we try to encourage people to come and go boating and fishing. The best deal we have made is to borrow money from the State which we have to pay back with interest. We kind of think that's good business for the county.

CHAIRMAN TEALE: I think you probably see what these people are faced with are that the facilities they have provided isn't even in their county. It's not real close to their county from the standpoint of the people there.

SENATOR MILLER: It seems to me as soon as you start talking about recreation, you can't talk about where the people come from. I think most recreational facilities are designed to attract people from outside the area. People in the area will spend their money there.

SENATOR COBEY: Mr. Chairman?

CHAIRMAN TEALE: Senator Cobey?

SENATOR COBEY: I thought this is where this concept of statewide interest came from, this particular legislation, the fact it was going to be used by those outside what you describe as the financing district, in a substantial measure?

SENATOR MILLER: Who collects the tolls in this project for boat launching?

MR. BUNTE: The district collects the fees, but as I say, we are in the red about ninety thousand dollars since we started operating down there.

SENATOR MILLER: Do you expect that to continue?

MR. BUNTE: No. We hope to get even, and the way we plan

to do it is let it to some long-term commercial leases and have them construct these facilities with their own capital outlay funds.

SENATOR MILLER: They wouldn't do that because they have an interest in the entire State, would they?

MR. BUNTE: No; this would be private capital.

SENATOR MILLER: Because they make a dollar; is that right?

MR. BUNTE: Right.

SENATOR MILLER: They make it off people that come from miles around? I suggest your district is in much the same position as mine, and the thing I question, whether you can say somebody else has to pay for this because the people come from miles around.

MR. BUNTE: Well, I would like to qualify my statement a little bit, then. I'm not saying the State should pay for it. As I understand it, this money is available for this purpose under the Davis-Grunsky Act, and that is the reason we have applied for it. If it wasn't available, why we would go ahead and do something else.

SENATOR MILLER: Get that in the record. I understand exactly what you mean, and you know, sometimes Uncle gets too big with his treasury.

CHAIRMAN TEALE: I would like to ask Mr. Bunte a question: As I understand it, the Davis-Grunsky Act, the grants which are available are only for that portion of the reservoir or the construction which is attributable to recreation use, and your on-shore facilities are not eligible under this grant program?

MR. BUNTE: Right.

CHAIRMAN TEALE: If you have a project with ten million and you get a three hundred thousand dollar grant, that would be about three per cent of your total cost of your reservoir. How much of your total pool do you plan to reserve for recreational

use, and what percentage of the total cost does that represent?

MR. BUNTE: I cannot give you at this time the percentage of the total cost because we are still in the process of making our borings and will have that information later. However, we plan the total capacity of about 300,000 acre-feet, and plan a minimum pool of 20,000.

CHAIRMAN TEALE: About six per cent of your total pool.

Any further questions? Senator Murdy?

(There was no response.)

CHAIRMAN TEALE: Thank you very much. Ladies and gentlemen, this concludes the hearing for today. Thank you for your interest and attendance.

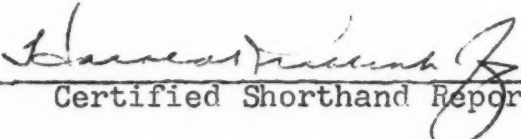
(The hearing was thereupon adjourned and concluded at 2:50 o'clock, p.m.)

REPORTER'S CERTIFICATE

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This is to certify that I, HAROLD KRABBENHOFT, CSR, a Certified Shorthand Reporter, was present at the time and place the foregoing proceedings were had and taken before the Senate Fact Finding Committee on Water of the California Legislature, held in Sacramento, California, on June 23 and 24, 1960, and that as such reporter I did take down such proceedings in shorthand writing and that thereafter I caused the shorthand writing to be transcribed into longhand type-writing, and the foregoing pages, beginning at the top of page 1 to and including page 80, and also beginning at the top of page 117 to and including page 158, constitute a true, complete, accurate and correct transcript of the aforementioned shorthand writing.

Dated this 27th day of June, 1960.

 CSR

Certified Shorthand Reporter

REPORTER'S CERTIFICATE

---oOo---

This is to certify that I, KATHLEEN SMITHERS, a shorthand reporter, was present at the time and place the foregoing proceedings were had and taken before the Senate Fact Finding Committee on Water of the California Legislature, held in Sacramento, California, on June 24, 1960, and that as such reporter I did take down such proceedings in shorthand writing and that thereafter I caused the shorthand writing to be transcribed into longhand typewriting and the foregoing pages beginning at the top of page 81 to and including page 116, constitute a true, complete, accurate and correct transcription of the aforesaid shorthand writing.

Dated this 30th day of June, 1960.

Kathleen J. Smithers
Shorthand Reporter